科通芯城

Cogobuy.com

Cogobuy Group 科通芯城集團

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00400

Annual Report 2019

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

Corporate Information (Continued)

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

FINANCIAL PERFORMANCE HIGHLIGHTS

	Year ended December 31, 2019	Year ended December 31, 2018	Year-on-year change
	(Renminbi in millions, unless specified)		
Revenue	**5,854.2**	5,534.8	5.8%
Gross profit	**565.6**	426.8	32.5%
Profit for the year	**145.0**	297.8	(51.3%)
Profit for the year attributable to owners of the Company	**110.1**	293.2	(62.4%)
Earnings per share ("**EPS**") (RMB per share)			
— basic	**0.077**	0.201	(61.7%)
— diluted	**0.076**	0.201	(62.2%)

Chairman's Statement

To consolidate overlapping businesses and enhance profitability, the Group completed our business reorganization at the end of 2019, integrating our two primary businesses — IC sales and AIoT — under Ingdan Innovations, and the development and sales of the Company's proprietary products, financing, and other enterprise services under Ingfin Services. This has prepared Cogobuy for new opportunities and provided a more distinct business positioning.

As 5G technology rapidly develops, relevant network construction and device production, as well as the application of internet of things "IoT" and AI, will further enhance the demand for chips. The Group's new "Ingdan Innovations + Ingfin Services" dual business model will therefore be able to accommodate demand along the entire 5G supply-chain, and create vital catalysts to the Group's business in the future.

Through Ingdan Innovations, the Group penetrates the 5G industry chain to accommodate the strong market demand brought by the future 5G infrastructure and terminal production. Ingdan Innovations collaborates with over 50% of global IC suppliers including the world's top 100 suppliers and the top domestic chip companies, utilizing its INGDAN.com and data analysis capabilities to provides technology application solutions to upstream chip suppliers and promote their products and technologies' applications. Meanwhile, with our quality products and services, we have succeeded in strengthening collaborations with long-term customers, enhancing customers' loyalty, and expanding and strengthening the Group's current customer list. Additionally, the Group will focus on investing and developing V2X business through Ingfin Services and increase investment in R&D of Ingfin Services in order to expand its proprietary products. We will actively seek different strategic investors' collaboration, as well as cooperate with leading AIoT hardware and software companies to expand solutions for INGDAN.com's Internet technology platform in order to enrich the Group's AIoT ecosystem and further discover new profit drivers.

In the new era of 5G and Internet of Everything ("**IoE**"), we are optimistic about the potential of V2X and has already developed and invested in the V2X market through Ingfin Services. The Group also established a V2X value-chain alliance with chip manufacturers, module suppliers, and car manufacturers in order to prepare in advance for the commercialization of V2X. During the Year, the Group entered a strategic cooperation with Toyota, one of the largest global vehicle suppliers, through INGDAN.com to establish a smart car ecosystem in China to help introduce various vehicle suppliers into Toyota's supply chain certification system, enabling the adoption of Chinese smart car projects by globally leading companies. This has strengthened our business in the V2X market.

Looking ahead to 2020, although the Coronavirus Disease (COVID-19) outbreak has had a severe impact on the world's capital markets, it, on the other hand, has hastened the implementation of new government infrastructure policies worth RMB25 trillion. The new infrastructure policy includes seven segments such as 5G network infrastructure, AI, IoT, big data, and new energy automotive, etc. creating important opportunities for the Chinese 5G and AIoT industries. As 5G technology develops and matures, the future will become an era for AI, high-performance cloud applications, and IoE. The need for device upgrades will drive greater demand for IC and AIoT chip solutions. Through Ingdan Innovations, we will provide enterprises with chip application solutions and drive the development of a "chip-devices-cloud" big data ecosystem in order to capture business opportunities from China's 5G transformation.

In addition, the Shenzhen National Development and Reform Commission recently included Ingdan Innovations' chips and AI industrial base in its new investment plan, the "Shenzhen Major Project Plan 2020". Ingdan Innovations' AI industrial base covers the entire industrial chain of chip design, manufacturing, application, marketing, and data services. It has the ability to transform innovative ideas into intelligent hardware products, and serve as the foundation for a "chip-devices-cloud" intelligent hardware ecosystem. The AI industrial base will serve two core business areas: (1) semiconductor chips; and (2) AIoT, and drive the development of a "chip-devices-cloud" big data ecosystem. We believe the repositioned "Ingdan Innovations + Ingfin Services" dual business model will help us prepare for the demand arising from the growth and development of 5G."

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 31, 2020

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 trading IC and related products and providing services to AI and IoT sectors in China. Following a major business restructuring in 2019, we merged our chips sales on Cogobuy.com and on INGDAN.com AIoT services into our Ingdan Innovations, and merged our R&D and IoT product financing and corporate services, previously under INGDAN.com AIoT business services platform, into our Ingfin Services, forming a new "Ingdan Innovations + Ingfin Services" dual business model. Upon completion of the reorganization, the Company will hold 75% of Ingdan Innovations and 100% of Ingfin Services, and both operations will continue to be consolidated into the Group's consolidated financial statements.

Ingdan Innovations leverages a network of over 50% of global IC suppliers including the world's top 100 suppliers and the leading domestic chip companies. It also provides comprehensive and professional technology application solutions to upstream chip suppliers by promoting their products and technologies' applications using its INGDAN.com and big data analysis capabilities. Meanwhile, Ingfin Services focus on developing proprietary products for different AIoT industries, including the Internet of Vehicles, smart homes, AI surveillance, etc. Ingfin Services will also seek investment opportunities in high-quality startups within the Group's AIoT ecosystem, to improve our overall strategic position and generate investment income.

During the Reporting Period, a substantial portion of our revenue for the Reporting Period was generated through our direct sales of IC and other electronic components. Primarily due to the financial impacts of the disposal of EZ ROBOT, INC. ("**EZ Robot**"), the net profit after tax decreased significantly compared to the corresponding period of 2018. As previously disclosed in the Company's interim results announcement for the six months ended June 30, 2018, the Company disposed of its 51% equity interest in EZ Robot in such period, which led to a one-off gain of RMB181.8 million recorded in its results for the six months ended June 30, 2018. As a result of such disposal, the Company no longer consolidates the results of EZ Robot in its consolidated financial statements, which also has an impact on the Group's profits for the year ended December 31, 2019.

However, we wish to highlight that, for illustration purposes only, if the financial impacts of the disposal of EZ Robot during the six months ended June 30, 2018 were excluded, the net profit of the Group for the year ended December 31, 2019 would have increased approximately 25% as compared to the corresponding period in 2018, and revenue of the Group for the year ended December 31, 2019 would have increased approximately 19% as compared to the corresponding period in 2018.

We are expected to directly benefit from China's new infrastructure construction, especially in science and technology facilities includes, 5G infrastructure, data centers, AI, and the Internet segments. As at the end of 2019, over 100 countries/regions in the world have launched investments in 5G networks, and 5G has become the centerpiece of China's new infrastructure. A report published by the China Academy of Information and Communications Technology ("**CAICT**") estimated that the accumulated investments in 5G network construction will reach RMB1.2 trillion in the next 5 years. At the same time, 5G network construction will encourage application investments and network transformations within the upstream and downstream players along the industry chain, as well as for different industries. CAICT forecasted that the investment scale of upgrading China's existing network will reach RMB500 billion by 2025 while 5G network construction will also stimulate application investments worth RMB3.5 trillion in different industries. With 2020, being the starting year of the 5G era, 5G infrastructure is set to grow immensely with the support of various government policies. We believe this will create enormous market opportunities for our IC business.

Our business covers the entire 5G construction value chain, providing products such as communication chips, modules, antenna and radio frequency products, and more. Investments in 5G infrastructure will strongly boost the Group's business, and our Group's network gateway communications devices business is expected to grow significantly in 2020. Additionally, new infrastructure segments such as big data and cloud services, Industry of Internet, and AI are also expected to drive growth within the Group's IC business in the future.

V2X has also been positioned to become a new growth driver for the Group. Since 2018, the growth rate of IoT devices worldwide has maintained a strong momentum, with over 7 billion connected devices and a growing penetration rate, according to a report published by China Economic Information Service. IoT applications such as V2X, smart city, Industrial IoT, and others, are rapidly becoming reality, of which V2X is regarded as the most prominent segment within 5G vertical industry applications. According to the China Society of Automotive Engineers, the sales for new V2X-enabled vehicles in China will reach the rate of 80% and 100% by 2025 and 2030 respectively, with an over RMB1 trillion market. According to the "5G Economic and Social Impact White Paper" published by CAICT, the Chinese V2X industry investment in communication devices and services will reach RMB12 billion by 2030. We are optimistic about the potential of V2X and have already developed and invested in the V2X market through Ingfin Services. We have also established a V2X value-chain alliance with chip manufacturers, module suppliers, and car manufacturers in order to prepare in advance for the commercialization of V2X.

During the year, the Group successfully introduced various vehicle suppliers into Toyota's supply chain certification system, which will help facilitate the adoption of Chinese smart car projects by globally leading companies. We had also made a strategic investment in Locoway Technology Holdings Limited, a service supplier specialized in in-depth research and development for automatic safe driving smart terminals, including Advanced Driver Assistance Systems ("**ADAS**") and Driver Monitoring Systems ("**DMS**") as well as providing hardware, software, and services for smart cars. We believe the investment will further enhance the Group's position in the V2X market.

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 for investment initiatives and other enterprise financing services. IngFin Financing Services is a good demonstration of our strength to generate new revenue stream by providing additional services based on the Group's existing platform. As at December 31, 2019, the outstanding loan balance of our IngFin Financing Services was approximately RMB818.9 million.

Future prospects

Our goal is to become a leading AIoT ecosystem company with AIoT technology supply chain as the core. Using our "Ingdan Innovations + Ingfin Services 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 5G industry is set to grow rapidly in the coming years, and it is expected that demand for IC and modules from the upstream and downstream of the industry will continue to increase. Our Ingdan Innovations plans to penetrate the whole 5G industry chain, and to accommodate the strong market demand brought by 5G construction and device production in the future. Although the COVID-19 outbreak has had a severe impact on the world's economy, it, on the other hand, has hastened the implementation of new government infrastructure policies worth RMB25 trillion. The new infrastructure policy includes seven segments such as 5G network infrastructure, AI, IoT, big data, new energy automotive, and charging piles, creating important opportunities for the Chinese 5G and AIoT industries. As 5G technology develops and matures, the future will become an era for AI, high-performance cloud applications, and Internet of Everything. The need for device upgrades will drive greater demand for IC and AIoT chip solutions. Through our Ingdan Innovations enterprise service platform, we plan to provide enterprises with chip application solutions and drive the development of a "chip-devices-cloud" big data ecosystem in order to capture business opportunities from China's 5G transformation.

II. Enhance revenue streams of Ingfin Services

We intend to further strengthen the revenue streams of Ingfin Services by developing it to an important R&D innovation and AIoT product financing and corporate services platform of the AIoT era. INGDAN.com acquires a myriad of customers, demands and data online, and provides a powerful data analysis tool for us to tailor Ingfin Services to meet industry trends and offer corporate services offline. This creates synergy that drives a greater contribution by Ingfin Services to the Group in the future. As Ingfin Services R&D projects have become more sophisticated, the platform will contribute 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 complimentary services. These services will enable us to maintain constant interactive communications with the key personnel, which in turn allows us to better understand the customers' demands and their product development. Accordingly, we will be able to make customized marketing plans targeted at the new customers and cross-sell other products.

V. Pursue strategic partnerships and acquisition opportunities

In addition to growing our business through internal initiatives, we plan to expand our business through strategic partnerships and acquisitions. We plan to identify partnerships and acquisition targets that are complementary to our business operations. This can help us expand our user and revenue 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, 2019, profit for the year of the Group amounted to approximately RMB145.0 million, representing a decrease of approximately RMB152.8 million as compared with approximately RMB297.8 million in 2018. Profit for the year attributable to owners of the Company amounted to approximately RMB110.1 million, representing a decrease of approximately RMB183.1 million compared with approximately RMB293.2 million in 2018.

As previously disclosed in the Company's interim results announcement for the six months ended June 30, 2018, the Company disposed of its 51% equity interest in EZ Robot during such period, which led to a one-off gain recorded in its results for the six months ended June 30, 2018. As a result of such disposal, the Company no longer consolidates the results of EZ Robot in its consolidated financial statements, which also has an impact on the Group's profits for the year ended December 31, 2019.

However, we wish to highlight that, for illustration purposes only, if the financial impacts of the disposal of EZ Robot during the six months ended June 30, 2018 were excluded, the net profit of the Group for the year ended December 31, 2019 would have increased approximately 25% as compared to the corresponding period in 2018, and revenue of the Group for the year ended December 31, 2019 would have increased approximately 19% as compared to the corresponding period in 2018.

Revenue

For the year ended December 31, 2019, revenue of the Group amounted to approximately RMB5,854.2 million, representing an increase of approximately RMB319.4 million or approximately 5.8% as compared with approximately RMB5,534.8 million in 2018. The Group's revenue comprised approximately RMB5,790.4 million of direct sales revenue, approximately RMB16.3 million of revenue from the Group's marketplace revenue and approximately RMB47.5 million of revenue from IngFin Financing Services. The increase was primarily due to the growth of sales of IC and other electronic components driven by development of more variety of products for different industries.

Cost of sales

Cost of sales for the year ended December 31, 2019 was approximately RMB5,288.6 million, representing an increase of approximately 3.5% from approximately RMB5,108.0 million for the year ended December 31, 2018. The increase in cost of sales was due to an increase in direct sales revenue described under the paragraph headed "Revenue".

Gross profit

Gross profit for the year ended December 31, 2019 was approximately RMB565.6 million, representing an increase of approximately 32.5% from approximately RMB426.8 million compared with the figures in 2018. The increase was primarily driven by the results of revenue and cost of sales for the reasons described under the paragraphs headed "Revenue" and "Cost of sales". The increase in gross profit was also contributed by change in sales mix in which sales in proprietary markets such as the Internet of Vehicles, smart homes, AI surveillance, etc. had a relatively higher gross margin than those of the traditional IC components.

Other income

For the year ended December 31, 2019, other income of the Group amounted to approximately RMB39.8 million, representing a decrease of approximately RMB43.0 million or approximately 51.9% as compared with approximately RMB82.8 million in 2018. This was primarily due to a net foreign exchange gain of approximately RMB16.2 million recorded for the year of 2019 as compared to approximately RMB53.2 million recorded in the corresponding period of 2018.

Selling and distribution expenses

Selling and distribution expenses for the year ended December 31, 2019 amounted to approximately RMB92.5 million, representing a decrease of approximately RMB18.7 million or 16.8% from approximately RMB111.2 million in 2018. This was primarily due to a decrease in selling expenses as a result of reduced marketing costs driven by adjustments in marketing strategies. The decrease was also contributed by loss allowance on trade receivables of approximately RMB17.5 million recorded for the year ended December 31, 2019 whilst loss allowance on trade receivables of approximately RMB35.3 million was recorded in the corresponding period of 2018.

Research and development expenses

Research and development expenses for the year ended December 31, 2019 amounted to approximately RMB135.6 million, representing an increase of approximately RMB8.6 million or approximately 6.8% from approximately RMB127.0 million in 2018. 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, 2019 as compared to the same period of 2018.

Administrative and other operating expenses

During the year ended December 31, 2019, administrative and other operating expenses amounted to approximately RMB189.9 million, representing an increase of approximately RMB91.2 million or approximately 92.4% from approximately RMB98.7 million in 2018, which was primarily due to amortization of intangible assets amounting to approximately RMB88.5 million recorded for the year ended December 31, 2019 as compared to approximately RMB1.5 million recorded in the same period of 2018, and depreciation of right-of-use assets of approximately RMB9.8 million recorded in the year ended December 31, 2019 whilst no such expense was recorded in the year ended December 31, 2018. The increase was partly offset by a decrease in general administrative expenses and back office employee headcounts in 2019.

Income tax

Our income tax increased by approximately 9.9% from approximately RMB16.2 million for the year ended December 31, 2018 to approximately RMB17.8 million for the year ended December 31, 2019, primarily due to an increase in profit from operations due to the increased revenue and gross profit. The effective tax rate for the year ended December 31, 2019 was 10.9%, as compared to 5.2% for the year ended December 31, 2018. The increase 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, whilst no such gain was recorded in 2019. The increase was in part due to deferred taxation related to amortization of intangible assets of approximately RMB7.8 million credited in 2019 whilst deferred taxation of approximately RMB0.3 million was credited in the same period of 2018.

Profit for the year attributable to owners of the Company for the Reporting Period

For the year ended December 31, 2019, profit for the year attributable to owners of the Company amounted to approximately RMB110.1 million, representing a decrease of approximately RMB183.1 million or approximately 62.4% as compared to approximately RMB293.2 million in 2018. The decrease was primarily due to a gain on disposal of subsidiaries amounting to approximately RMB181.8 million recorded in 2018.

Liquidity and source of funding

As at December 31, 2019, the current assets of the Group amounted to approximately RMB3,160.9 million, which mainly comprised cash and bank balances (including pledged bank deposits), inventories and trade, bills and other receivables, in the amount of approximately RMB279.7 million, RMB320.0 million and RMB1,567.5 million, respectively. Current liabilities of the Group amounted to approximately RMB1,066.9 million, of which approximately RMB180.7 million was bank loans and approximately RMB854.3 million was trade and other payables. As at December 31, 2019, the current ratio (the current assets to current liabilities ratio) of the Group was 2.96, representing an increase of approximately 2.4% as compared with 2.89 as at December 31, 2018. The change in the current ratio was primarily due to the decrease in both current assets and current liabilities as a result of net repayment of bank loans of approximately RMB945.2 million during 2019.

The Group does not have other debt financing obligations as of December 31, 2019 or the date of this annual report and does not have any breaches of financial covenants.

Capital expenditure

For the year ended December 31, 2019, the capital expenditure of the Group amounted to approximately RMB760 million, representing an increase of approximately RMB193 million or approximately 34.0% as compared with approximately RMB567 million in 2018. The increase in the capital expenditure was primarily due to purchases of intangible assets during 2019, which were related to research and development for automatic safe driving smart terminals, including ADAS and DMS.

Net gearing ratio

As at December 31, 2019, the net gearing ratio of the Group, which was calculated by dividing net debt (total bank loans and leases liabilities minus cash and cash equivalents, short-term bank deposits, pledged bank deposits) by the sum of net debt and total equity was approximately –1.7% as compared with approximately –4.5% as at December 31, 2018. The increase was primarily due to a decrease in net cash and bank balances as a result of additional investment in financial assets at fair value through other comprehensive income and purchases of intangible assets in 2019. The decrease in net cash balance was offset in part by increase in cash generated from operations.

Material investments

The Group did not make any material investments for the year ended December 31, 2019.

Material acquisitions and disposals

On December 17, 2019, the Company entered into (a) a legally binding letter of intent with Optimum, Alphalink and Comtech Industrial SZ in respect of (i) the acquisition of 30% of the entire issued share capital of Hardeggs from Optimum by INGDAN, an indirect wholly-owned subsidiary of the Company, for a consideration of RMB35 million (the "**Acquisition**"); and (ii) the subscription of Optimum in the shares of Comtech Industrial SZ, an indirect wholly-owned subsidiary of the Company, representing 25% of its entire issued share capital, for RMB35 million; and (b) a sale and purchase agreement with Optimum in respect of the Acquisition, further details of which are set out in the announcements of the Company dated December 17, 2019 and January 13, 2020. Due to the disruption of governmental services in Hong Kong, the PRC and the BVI as a result of the COVID-19 pandemic, the Company currently expects a delay in completion due to a delay in the registrations of the relevant vehicles for the purpose of the transaction and a delay in obtaining the relevant government approvals in the PRC. Taking into account these factors, completion of this transaction is expected to take place in late April 2020 or such other time as mutually agreed by the parties.

Save as disclosed in this annual report, the Group did not have any material acquisitions and disposals for the year ended December 31, 2019.

Future plans for material investments and capital assets

As at December 31, 2019, we did not have other plans for material investments and capital assets.

Pledge of assets

Except for the pledged bank deposits of approximately RMB159.9 million and approximately RMB306.9 million as at December 31, 2019 and December 31, 2018, respectively, the Group did not pledge any assets for the year ended December 31, 2019. 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 at December 31, 2019.

Foreign exchange exposure

Foreign currency transactions during the year ended December 31, 2019 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 as at December 31, 2019. 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 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 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 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, 2019. 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.

Events After the Reporting Period

(i) On December 23, 2019, the Company and Comtech China, entered into a property leasing and complementary service framework agreement (the "**Property Leasing and Complementary Service Framework Agreement**"), pursuant to which Comtech China agreed to provide property leasing and complementary property management services to the Group from January 1, 2020 to December 31, 2022 at monthly fees of (i) RMB200 per square metre for rental of offices; (ii) RMB210 per square metre for rental of the showroom; and (iii) RMB18 per square metre for complementary property management service. Details are set out in the Company's announcements dated December 23, 2019 and February 20, 2020, respectively.

    Subsequent to the end of the Reporting Period, certain property leasing agreements have been entered by the Group and subsidiaries of Comtech China under the Property Leasing and Complementary Service Framework Agreement and the annual cap amount for the year ending December 31, 2020, as disclosed in the Company's announcement dated February 20, 2020, is approximately RMB78.6 million, representing the initial recognition of right-of-use assets for the above property leasing agreements.

(ii) The lock down of commercial activities due to the outbreak of the COVID-19 pandemic has affected both our sales of IC and other electronic components and the provision of IngFin Financing Services. While we carefully monitor the ongoing developments to manage risks and continue to be responsive to market opportunities, given the fast-changing nature under the current circumstances, the related impacts on our consolidated results of operations, cash flows, and financial conditions could not be reasonably assessed at the date of this annual report, and will be reflected in our interim financial information for the six months ending June 30, 2020 and consolidated financial statements for the year ending December 31, 2020.

REVIEW OF OUR CONSOLIDATED FINANCIAL INFORMATION

We have established an audit committee in compliance with the CG Code. The members of the audit committee have discussed with the management of the Company and reviewed the consolidated financial information of the Company for the financial year ended December 31, 2019 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	50	Executive Director, Chairman, and Chief Executive Officer	March 2014	July 2000
WU Lun Cheung Allen	45	Executive Director, Chief Financial Officer and Company Secretary	March 2014	October 2003
NI Hong, Hope	47	Executive Director and Chief Investment Officer	March 2015	September 2010
YE Xin	56	Independent non-executive Director	July 2014	July 2014
MA Qiyuan	63	Independent non-executive Director	June 2017	June 2017
HAO Chunyi, Charlie	60	Independent non-executive Director	February 2018	February 2018

Executive Directors

KANG Jingwei, Jeffrey (康敬偉), aged 50, is the founder and Chairman of the Group, and was appointed as an executive Director of the 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, 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 45, is the Chief Financial Officer and Company Secretary of the Group and was appointed as an Executive Director of the 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 20 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 47, is the Chief Investment Officer of the Group and was appointed as an executive Director of the 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 Creativity Global (formerly known as ATA Inc.), a NASDAQ listed company (NASDAQ: AACG). 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 56, was appointed as an independent non-executive Director of the Company since July 18, 2014. He is also the chairman of the nomination committee and a member of the audit and remuneration committees of the Company. 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 63, was appointed as an independent non-executive Director of the Company since June 2, 2017. He is also the chairman of the remuneration committee and a member of the audit and nomination committees of the Company. 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 60, was appointed as an independent non-executive Director of the Company since February 13, 2018. He is also the chairman of the audit committee and a member of the remuneration and nomination committees of the Company. 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 the 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	54	Senior vice-president of Ingdan Innovations	March 2013	August 2010
CHAN Edward	56	Vice-president of operations	January 2014	April 2004
LI Henry	52	Vice-president of business of Ingdan Innovations	November 2012	July 2000
WANG Vivia	36	Vice-president	September 2015	September 2015

LI Feng (李峰), aged 54, is the senior vice-president of Ingdan Innovations and is primarily responsible for development of its online technology platform and big data analytics applications. 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 56, 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 52, is the vice-president of business of Ingdan Innovations and is primarily responsible for its overall business and market development. 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 36, 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 the China Business Division of CCB International (Holdings) Limited 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 Group for the year ended December 31, 2019.

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. Following a major business restructuring in 2019, the Company merged its chips sales on Cogobuy.com and on INGDAN.com AIoT services into Ingdan Innovations, and combined its R&D and IoT product financing and corporate services, previously under INGDAN.com AIoT business services platform, into its Ingfin Services, forming a new "Ingdan Innovations + Ingfin Services" dual business model. Upon completion of the reorganization, the Company will hold 75% of Ingdan Innovations and 100% of Ingfin Services, and both operations will continue to be consolidated into the Group's consolidated financial statements.

Ingdan Innovations leverages a network of top global IC suppliers to provide comprehensive and professional technology application solutions to upstream chip suppliers by promoting their products and technologies' applications using its online platforms and big data analysis capabilities. Ingfin Services focus on developing proprietary products for different industries, including the Internet of Vehicles, smart homes, AI surveillance, etc., and will also seek investment opportunities in high-quality startups in AIoT areas. In 2019, the Group fulfilled orders and derived a revenue of approximately RMB5,854.2 million.

A list of the Company's major subsidiaries, together with their places of incorporation and principal activities, is set out in note 43 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group during the year ended December 31, 2019 (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 6 and Management Discussion and Analysis on pages 7 to 15 of this annual report. A description of the principal risks and uncertainties facing the Company is set out on pages 22 and 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. The Group would seek professional legal advice from its legal advisers to ensure that transactions and business to be performed by the Group are in compliance with the applicable laws and regulations. During the year ended December 31, 2019, 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, 2019, 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, 2019, 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, 2019 is set out in the Corporate Governance Report on pages 47 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.

- The lock down of commercial activities due to the outbreak of the COVID-19 pandemic has caused disruptions of our supply chains and normal business operations, affecting both our sales of IC and other electronic components and the provision of IngFin Financing Services. While we carefully monitor the ongoing developments to manage risks and continue to be responsive to market opportunities, given the fast-changing nature under the current circumstances, we may not be able to assess and mitigate relevant impacts on our financial performance.

- 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.

- 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.

DIRECTORS

The Directors during the year ended December 31, 2019 and up to the date of this Report of the Directors 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)*

Independent non-executive Directors:

Mr. YE Xin
Dr. MA Qiyuan
Mr. HAO Chunyi, Charlie

In accordance with articles 84(1) and 84(2) of the Articles of Association, Mr. Ye Xin and Dr. Ma Qiyuan 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

There has been no change in information of the Directors since the publication of the 2019 interim report of the Company, which is required to be disclosed under Rule 13.51B(1) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Mr. Kang Jingwei, Jeffrey and Mr. Wu Lun Cheung Allen have each entered into service agreements with the 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 the 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 the 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 the 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 the 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, 2019.

DIRECTORS' INTERESTS IN CONTRACTS AND COMPETING BUSINESSES

Save as disclosed in note 36 to the consolidated financial statements headed "Related Party Transactions" and the section headed "Connected Transactions / 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, 2019.

During the year ended December 31, 2019, 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, 2019.

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, 2019, 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)	650,200,000	45.55%
Mr. Kang	Beneficial owner	1,800,000	0.13%
Mr. Wu	Beneficial owner	1,800,000	0.13%

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, 2019.

(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, 2019, so far as is known to any Director or the chief executives of the Company, none of the Directors or the chief executives 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, 2019, 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
Envision Global	Beneficial owner	650,200,000	45.55%
Mr. Kang[2]	Interest of a controlled corporation	650,200,000	45.55%
Mr. Kang	Beneficial owner	1,800,000	0.13%
Total Dynamic	Beneficial owner	182,888,000	12.81%
Ms. Yao[3]	Interest of a controlled corporation	182,888,000	12.81%

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, 2019 (without taking into account the Shares to be issued pursuant to the RSU Scheme).

Save as disclosed above, as at December 31, 2019, 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, 2019 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, 2019, the Group had 478 employees in total (2018: 497), of which 22 employees worked part-time (2018: 32). 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 a Remuneration Committee 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 expenses incurred by the Group for the year ended December 31, 2019 was approximately RMB137.4 million (2018: RMB166.8 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 of its subsidiaries (collectively, "**Scheme Companies**" and each, a "**Scheme Company**") and align their interests with those of the Shareholders.

The grant of the RSUs recognized the contribution of the Scheme Companies' directors, executive officers, senior managers and employees to the historical achievements of the Company. The Company has the intention to continue exploring ways to incentivise, retain and reward Scheme Companies' directors, executive officers, senior management and employees and may implement other RSU schemes or other share-based remuneration schemes in the future. The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares. To satisfy the grant of Shares under the RSU Scheme, 14,000,000 ordinary Shares of the Company were issued in aggregate on September 3, 2019.

Details of the movement of the RSUs granted pursuant to the RSU Scheme to the Directors and employees during the year ended December 31, 2019 are set out below:

Name of participants	Date of award	Number of Shares underlying the RSUs granted	Vested as at December 31, 2019	Unvested as at December 31, 2019	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	5,020,000	440,000	12 quarterly installments (from February 1, 2017 to January 31, 2020)
Other grantees with a vesting period of three years[5]	November 23, 2018	10,200,000	3,250,000	5,600,000	12 quarterly installments (from November 23, 2018 to November 22, 2021)
Other grantees with a vesting period of three years	September 3, 2019	14,000,000	1,166,674	12,833,326	12 quarterly installments (from September 3, 2019 to September 2, 2022)

Notes:

(1) As at December 31, 2019, 1,275,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

(2) As at December 31, 2019, 830,500 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

(3) As at December 31, 2019, 2,140,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

(4) As at December 31, 2019, 540,000 awarded Shares lapsed prior to its vesting date as a result of staff resignation.

(5) As at December 31, 2019, 1,350,000 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, 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 88 and 89 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 223 and 224 of this annual report. This summary does not form part of the audited consolidated financial statements.

CAPITAL STRUCTURE

Details of the capital structure are set out in the 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, 2019 are set out in note 34 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, 2019 are set out in note 42(b) to the consolidated financial statements and the consolidated statement of changes in equity on pages 92 to 95 of this annual report. As at December 31, 2019, the Company's reserves available for distribution to the Shareholders were approximately RMB1,926.7 million (as at December 31, 2018: RMB2,083.0 million).

DIVIDENDS

The Board does not recommend the distribution of a final dividend for the year ended December 31, 2019 (2018: nil).

DONATIONS

During the year ended December 31, 2019, the Group did not make any charitable and other donations (2018: nil).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as of December 31, 2019 are set out in note 32 to the consolidated financial statements.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended December 31, 2019, the Company repurchased an aggregate of 63,577,000 Shares (2018: 4,567,000 Shares) on the Stock Exchange at an aggregate consideration of approximately HK$149.4 million (2018: HK$15.7 million) (equivalent to approximately RMB131.7 million (2018: approximately RMB13.8 million)).

Details of the repurchases of Shares during the year ended December 31, 2019 are set out as follows and in note 34 to the consolidated financial statements:

Month of repurchase	No. of Shares repurchased	Higher price paid (HK$)	Lowest price paid (HK$)	Total paid (HK$'000)
March 2019	451,000	2.91	2.86	1,300
April 2019	20,984,000	3.09	2.75	62,670
May 2019	5,778,000	2.72	2.30	14,413
June 2019	977,000	2.11	2.04	2,027
July 2019	24,229,000	2.24	2.14	53,089
September 2019	11,158,000	1.48	1.37	15,900
	63,577,000			149,399

All of the aforesaid repurchased Shares were cancelled, of which 20,973,000 Shares were cancelled on April 29, 2019, 6,240,000 Shares were cancelled on June 20, 2019, 977,000 Shares were cancelled on July 15, 2019, 24,229,000 Shares were cancelled on August 7, 2019, and 11,158,000 Shares were cancelled on September 30, 2019.

The repurchases of the Shares during the year ended December 31, 2019 were 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 and up to the date of this Report of the Directors, 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, 2019.

PLANT AND EQUIPMENT

Details of movements in plant and equipment during the year ended December 31, 2019 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, 2019.

SIGNIFICANT INVESTMENTS HELD

The Company held financial assets at fair value through other comprehensive income amounted to RMB360.5 million as at the year ended December 31, 2019 (as at December 31, 2018: RMB7.7 million).

CONNECTED TRANSACTIONS / CONTINUING CONNECTED TRANSACTIONS

1. Purchase Option Agreement among Qianhai Cogobuy.com, Comtech Communication and Shenzhen Comtech & Agency Agreement and Service Agreement between Qianhai Cogobuy.com and Shenzhen Comtech

On December 11, 2015, Qianhai Cogobuy.com, Comtech Communication and 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 June 8, 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 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 45.68% 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.

2. Transactions with Optimum

(a) Letter of Intent and Subscription Agreement

On December 17, 2019, the Company entered into a legally binding letter of intent with Optimum, Alphalink and Comtech Industrial SZ, pursuant to which (i) the Company shall procure INGDAN to acquire from Optimum 30% of the entire issued share capital of Hardeggs, including its direct and indirect subsidiaries (collectively, the "**Hardeggs Target Group**"), and substantially all of the assets, tangible and intangible, that are used in, or necessary for the conduct of the businesses of the Hardeggs Target Group for a consideration of RMB35 million (equivalent to approximately HK$39.2 million) (the "**Hardeggs Acquisition**"); and (ii) Alphalink and Comtech Industrial SZ shall, and Optimum shall procure its designated nominee to, execute the subscription agreement ("**Optimum Subscription**") in respect of Optimum's subscription of shares of Comtech Industrial SZ representing 25% of its entire issued share capital for RMB35 million (equivalent to approximately HK$39.2 million). Both the Hardeggs Acquisition and the Optimum Subscription are subject to the satisfaction of certain conditions precedent.

(b) Sale and Purchase Agreement

On December 17, 2019, INGDAN and Optimum entered into a sale and purchase agreement (the "**Optimum Sale and Purchase Agreement**"), pursuant to which INGDAN agreed to purchase, and Optimum agreed to sell, the sale shares (being 30 ordinary shares with a par value of US$1.00 each in the issued share capital of Hardeggs, legally and beneficially owned by Optimum and to be acquired by INGDAN in accordance with the terms and conditions of the Optimum Sale and Purchase Agreement) at the consideration of RMB35 million (equivalent to approximately HK$39.2 million). The consideration shall be settled by INGDAN on or before completion of the sale and purchase of the Sale Shares in accordance with the Optimum Sale and Purchase Agreement ("**Completion**") by wire transfer, or by such other method mutually agreeable to the parties, of immediately available funds to a bank account designated in writing by Optimum.

Completion shall take place on or before March 31, 2020 or such other time as may be mutually agreed by INGDAN and Optimum after certain conditions precedent have been fulfilled or waived (as the case may be). Upon Completion, Hardeggs will be a wholly-owned subsidiary of the Company and the financial results of the Hardeggs Target Group will continue to be consolidated into those of the Group. Due to the disruption of governmental services in Hong Kong, the PRC and the BVI as a result of the COVID-19 pandemic, the Company currently expects a delay in completion due to a delay in the registrations of the relevant vehicles for the purpose of the transaction and a delay in obtaining the relevant government approvals in the PRC. Taking into account these factors, completion of this transaction is expected to take place in late April 2020 or such other time as mutually agreed by the parties.

Optimum is a substantial shareholder of Hardeggs, an indirect subsidiary of the Company, as it holds 30% of the issued share capital of Hardeggs, and is therefore a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, each of the Hardeggs Acquisition and the Optimum Subscription constitutes a 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 transactions, please refer to the Company's announcements dated December 17, 2019 and January 13, 2020.

3. Property Leasing and Complementary Services Framework Agreement with Comtech China

On December 23, 2019, the Company and Comtech China entered into the Property Leasing and Complementary Services Framework Agreement, pursuant to which Comtech China has agreed, and will procure its subsidiaries to agree, to provide property leasing and complementary property management services to the Group.

The Company has entered into an agreement with Comtech China on March 20, 2018 in respect of the provision of property leasing and property management services, access to car parking and other facilities, car services, and other miscellaneous services by Comtech China and its subsidiary to the Group (the "**2018 Agreement**"), which expired on December 31, 2019. The historical amount payable by the Group pursuant to the transactions contemplated under the 2018 Agreement for each of the two years ended December 31, 2019 were approximately RMB3.0 million and RMB4.2 million, respectively.

The annual caps for the three years ending December 31, 2022 for property leasing under the Property Leasing and Complementary Services Framework Agreement are RMB78.6 million, RMB0 and RMB0, respectively. The annual caps in respect of the complementary property management service fees payable by the Group to Comtech China and/or its subsidiaries under the Property Leasing and Complementary Services Framework Agreement for each of the three years ending December 31, 2022 is RMB1.3 million.

Mr. Kang 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 45.68% of the total issued share capital of the Company and is a Controlling Shareholder. Comtech China is indirectly wholly-owned by Mr. Kang, and is therefore an associate of Mr. Kang and a connected person of the Company.

Accordingly, the Property Leasing and Complementary Services Framework Agreement entered into between the Company and Comtech China constitutes 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 agreement, please refer to the Company's announcements dated December 23, 2019 and February 20, 2020.

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.

According to the Information Disclosure System of MIIT, a number of wholly foreign owned enterprises in the PRC have obtained the EDI Licenses from MIIT since the promulgation of the 196 Circular. The Group had gradually built up the track record of overseas telecommunications business operations required to be qualified, and had transferred all of its value-added telecommunications business in the PRC previously held by Shenzhen Cogobuy to Cogobuy E-commerce or its affiliate, such that Cogobuy E-commerce could operate the e-commerce platform on its own and applied for an EDI License with MIIT. On November 27, 2019, MIIT has granted the EDI License to Cogobuy E-commerce.

As of December 31, 2019, the Company has no further update to disclose in relation to the Qualification Requirement.

Contractual Arrangements

Reasons for the Contractual Arrangements

Due to 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 from the business 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 at the time, our Cogobuy.com was 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 held the requisite PRC permits, licenses and approvals for developing and operating our e-commerce platform, including the ICP license, and EDI license. In addition, Shenzhen Cogobuy held the intellectual property rights, including software copyrights and the domain name, and is in the process of acquiring the trademarks that are important for the operation of our Cogobuy.com. Shenzhen Cogobuy had also performed the value-added telecommunication services of the Company.

While we have completed the transfer of all of the Group's value-added telecommunications businesses in the PRC from Shenzhen Cogobuy to Cogobuy E-commerce or its affiliate by the time Cogobuy E-commerce obtained an EDI License on November 27, 2019, certain businesses historically conducted under Shenzhen Cogobuy that had been consolidated into our financial results and could not be transferred to Cogobuy E-commerce or its affiliate directly due to technicality (immediate loss of net assets or heavy taxation — see also the paragraph headed "Risks relating to the Contractual Arrangements"). Our Directors are of the view that it is in the best interest of the Company to maintain the Contractual Arrangement until the relevant assets could be gradually transferred to the Group without adverse effects on our financial results.

Further details of the revenue, profit and assets subject to the Contractual Arrangements can be found in the paragraph headed "Revenue and assets subject to the Contractual Arrangements".

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.

- 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 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 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 findings revealing 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.

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. 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 assets subject to the Contractual Arrangements".

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

All the Contractual Arrangements are subject to the restrictions as set out on pages 139 to 144 of the Prospectus.

Contractual Arrangements

During the year ended December 31, 2019, 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, 2019. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended December 31, 2019.

For the year ended December 31, 2019, 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 12.81% 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, 2019 RMB'000	Year ended December 31, 2018 RMB'000
Revenue	**17,470**	28,892
Profit for the year	**856**	4,821

	As at December 31, 2019 RMB'000	As at December 31, 2018 RMB'000
Total assets	**97,466**	96,352

For the year ended December 31, 2019, the revenue and profit for the year of Shenzhen Cogobuy amounted to approximately 0.3% (2018: 0.5%) and 0.6% (2018: 1.6%) of the revenue and profit for the year of the Group respectively.

As at December 31, 2019, the total assets of Shenzhen Cogobuy amounted to approximately 1.8% (2018: 1.6%) 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 "Connected Transactions / 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, 2019 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, 2019.

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 New Agency Agreement and the New Service Agreement, have not been approved by the Board;

(b) for transactions involving the provision of 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 New Agency Agreement and the New Service Agreement, 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, 2019 has been provided by the Company to the Stock Exchange.

During the year ended December 31, 2019, save as disclosed in the section headed "Connected Transactions / Continuing Connected Transactions" of this annual report, no other related party transactions disclosed in note 36 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 section headed "Connected Transactions / 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, 2019.

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, 2019 (2018: 1). For the Reporting Period, the aggregate sales attributable to the Group's five largest customers were approximately 32.7% of the Group's total sales, and the sales attributable to the Group's largest customer were approximately 18.4% 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, 2019, we had a strong network of approximately 146 suppliers, including some of the top suppliers in key product categories, such as Intel for cloud/data center, Mellanox for E-commerce, Data Center, AI, Microchip for industrial and AIoT, Micron for data center, Microsoft for cloud service and AIoT, OSRAM for automotive lighting, Realtek for XGPON communication and AIoT, SanDisk for smart mobile device components, Skyworks for 5G communications, and Xilinx for industrial, medical, communication and test and measurement. For the Reporting Period, our five largest suppliers in aggregate accounted for approximately 32.9% of the Group's total purchases and our largest supplier accounted for approximately 10.9% 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 Company's 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 at December 31, 2019, the Company was not involved in any material litigation or arbitration. Nor were the Directors of the Company aware of any material litigation or claims that were pending or threatened against the Company.

AUDIT COMMITTEE

The audit committee has reviewed together with the management and the external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2019.

AUDITOR

The consolidated financial statements for the year ended December 31, 2019 have been audited by SHINEWING (HK) CPA Limited. 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 (HK) CPA Limited 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 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, 2019, 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 31, 2020

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, 2019.

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, 2019, the Company has complied with all of the code provisions as set out in the CG Code, save and except for the deviation from code provision A.2.1 as explained below:

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 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, 2019.

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, 2019 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, Hope *(Chief Investment Officer)*	
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	Chairman of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee

The biographical information of the Directors is 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, 2019, 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 that 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. Ye Xin and Dr. Ma Qiyuan 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; and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. 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, including regularly updates on the Group's performance, financial position and prospects, 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 on 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, 2019, 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	✓	✓	✓
Independent Non-Executive Directors			
Ye Xin	✓	✓	✓
Ma Qiyuan	✓	✓	✓
Hao Chunyi, Charlie	✓	✓	✓

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, 2019, the audit committee held three meetings to review, discuss and 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 engagement of non-audit services and relevant scope of works and, connected transactions, 2019 full year audit plan, financial control and whistleblowing policy.

The audit committee also met the external auditors twice without the presence of the executive Directors for the year ended December 31, 2019.

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, 2019, the remuneration committee met once to review and make recommendations to the Board on the remuneration policy and structure of the Company, and the packages for the remuneration of all Directors and senior management of the Company.

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 pages 157 to 158 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, 2019, the nomination committee met once to review, discuss and consider the structure, size and composition of the Board, the independence of the independent non-executive Directors and the board diversity policy and the qualifications of the retiring Directors standing for election at the annual general meeting and other related matters. The nomination committee believed that the Board of Directors has maintained the diversity perspectives of an appropriate balance.

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, 2019, 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, 2019 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	4/4	N/A	N/A	N/A	1/1
Wu Lun Cheung Allen	4/4	N/A	N/A	N/A	1/1
Ni Hong, Hope	4/4	N/A	N/A	N/A	1/1
Ye Xin	4/4	1/1	1/1	3/3	1/1
Ma Qiyuan	4/4	1/1	1/1	3/3	1/1
Hao Chunyi, Charlie	4/4	1/1	1/1	3/3	1/1

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of executive Directors during the year ended December 31, 2019.

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, 2019.

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 consolidated financial statements is set out in the Independent Auditor's Report on pages 80 to 87 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 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 Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the audit committee of the Company.

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.

The Company has developed and adopted risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, financial reporting, human resources and information technology.

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 and to ensure compliance with applicable laws and regulations. The risk management system consists of the following phases:

- *Identification:* identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* consider the risk responses, ensure effective communication to the Board and on-going monitoring of the residual risks.

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 identified 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, 2019.

During the year ended December 31, 2019, the internal audit function of the Group was performed by the Company's internal audit department, which is responsible for performing regular 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 Company also engaged an external professional advisor in possession of relevant expertise to conduct an annual independent review of the risk management and internal control systems of the Group for the year ended December 31, 2019, in order to ensure (i) proper process used to identify, evaluate and manage significant risks; (ii) main features of the risk management and internal control systems were identified; (iii) the systems were designed to manage the risks to achieve business objectives and provide reasonable assurance against material misstatement or loss; (iv) appropriate process to resolve material risk management and internal control defects; and (v) effective procedures of risk management and internal controls for inside information management.

The Board, as supported by the audit committee of the Company as well as the management report, internal audit findings and the preliminary report issued by the professional advisor, has conducted a review on the effectiveness of the risk management and internal control systems of the Group for the year ended December 31, 2019. Such review covered the areas of all material controls, including the Group's financial, operational, compliance control and risk management functions and the adequacy of resources, training programmes, budgets, qualifications and experience of staff of the accounting, internal audit and financial reporting functions. Based on the internal control review, no significant control deficiency was identified. The Board considered that such systems are effective and adequate.

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 flows;
- capital requirements;
- general financial condition;
- contractual restrictions;
- future prospects; and
- other factors that the Board may 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 established 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. The Board is entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy.

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, 2019 in respect of audit and non-audit services is set out below:

Services provided	Fees (HK$)
Audit services	3,420,000
Non-audit services(Note)	2,200,000
Total	5,620,000

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, 2019 and its affiliated firm provided internal control review services of the Group for the year ended December 31, 2019.

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 laws, 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, 2019 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 Goaxin South 9th Road, High-Tech Industrial Park, Nanshan, Shenzhen 518057, PRC (For the attention of the Chief Investor Relations Officer)
Fax:	+86 (755) 2674 4090
Email:	ir@cogobuy.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an ongoing 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, 2019, 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

REPORTING STANDARD, PERIOD AND SCOPE

This report ("**ESG Report**") has been prepared by Cogobuy Group ("**Cogobuy**" or the "**Company**") and its subsidiaries (collectively "**we**", "**us**", "**our**", or the "**Group**") in accordance with 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 Environmental, Social and Governance ("**ESG**") efforts made by the Group during the year ended December 31, 2019 (the "**Reporting Period**"), with the aim of providing a comprehensive picture to the stakeholders in addition to its financial performance. 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.

ABOUT THE COMPANY

Cogobuy is a leading enterprise service platform, dedicated to trading integrated circuits and related products and providing services to artificial intelligence ("**AI**") and Internet of Things ("**IoT**", together "**AIoT**") sectors in China. Following a major business restructuring in 2019, the Group merged its chips sales on Cogobuy.com and on INGDAN.com AIoT services into Ingdan Innovations business unit ("**Ingdan Innovations**"), and consolidated its Research and Development and IoT product financing and corporate services into Ingfin Services business unit ("**Ingfin Services**"), forming a new "Ingdan Innovations + Ingfin Services" dual business model.

OUR COMMITMENT AND APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The board of directors (the "**Board**") of our Group recognizes the importance of 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 environmentally and socially sustainable culture among all our employees to maintain sustainable growth for the Group.

The Board has set up an ESG working group and delegates its ESG duties to the working group which helps to develop, manage and execute policies, guidelines and systems in relation to ESG. These policies are further communicated downward to staff in all departments and subsidiaries of the Group. By 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 an 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. Our employees are responsible for complying with different ESG related policies and executing accordingly with the Group's ESG works while the ESG working group is responsible for collection of data, disclosure of information and notification to the Board in a timely manner.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

Stakeholder Engagement

The Group 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 Group, 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 and to achieve sustainable development as a whole.

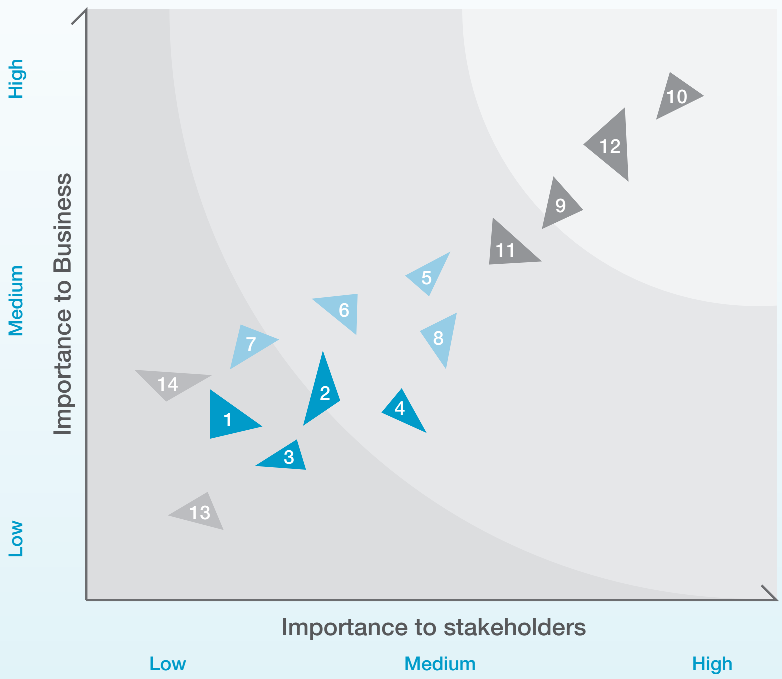
The stakeholder groups, their expectations and their typical communication channels with the Group are tabled below:

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 and long-term 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, AGM, 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 and the Investor Relations section of the Company's 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 and community service • 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 Investor Relations section of the Company's website • Financial reports, announcements and circulars and other publicly available information

Materiality Assessment

During the Reporting Period, we have managed to communicate with our stakeholders and discovered several potential material issues related to ESG which may affect the Group in the long term. We have further categorized these issues into various areas in accordance with the ESG Reporting Guide, and collected relevant information from the affected stakeholders to estimate the impact of these ESG issues to the Group. After our analysis, the issues that are material to the Group are shown as below:



Environment	Employee	Business	Community
1. Environmental compliance 2. Investment in environmental protection 3. Greenhouse gas emissions 4. Waste management	5. Salary and welfare 6. Health and safety protection 7. Employee diversification 8. Training and career development	9. Product safety 10. Product quality 11. Intellectual property rights 12. Supply chain management	13. Community development 14. Charitable donations and community service

Based on the above analysis, the Group will improve its ESG performance continuously in order to meet the different expectations of stakeholders, and provide feedback to stakeholders and response to the risks of the Group. 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 Group is aware of the risks 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 committed to the compliance of, and had complied with, significant environmental laws and regulations in Hong Kong and PRC, which 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);
- Environmental Protection Tax Law of the People’s Republic of China (中華人民共和國環境保護稅法);
- 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 Group has not received any report or complaint of any significant breaches of environmental laws and regulations during the Reporting Period (2018: Nil). The ESG performances of the Group with regard 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)		2019		2018	
Direct air emissions	Air emission source(s)	Total emissions	Intensities (note 1)	Total emissions	Intensities (note 1)
Nitrogen Oxides ("**NOx**")	Group vehicles	**9.69**	**0.02**	12.42	0.02
Sulphur Oxides ("**SOx**")		**0.20**	**<0.01**	0.33	<0.01
Particulate Matters ("**PM**")		**0.71**	**<0.01**	0.91	<0.01

Note 1: Intensity is measured by dividing the relevant emissions by the number of employees as at the end of the 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)		2019		2018	
Scope of GHG emissions	Emission source(s)	Total emissions	Intensities (note 1)	Total emissions	Intensities (note 1)
Scope 1					
Direct GHG Emissions	Group vehicles	**36.20**	**0.08**	61.64	0.12
Scope 2					
Energy Indirect GHG Emissions	Purchased electricity	**264.46**	**0.55**	289.58	0.58
Scope 3					
Other Indirect GHG Emissions	Business air travel & paper disposals	**163.48**	**0.34**	149.46	0.30
Total		**464.14**	**0.97**	500.68	1.00

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

As shown in the results above, the air and GHG emissions of the Group during the Reporting Period decreased slightly compared to last year, which is a good indication of our efforts in producing less emission. Electricity consumption remained the major source of GHG emission during the Reporting Period, which was generated indirectly through our use of electricity purchased through national grid, while the second source of GHG emission is from other indirect emissions that include business air travel and paper disposals. The overall level of emissions remained low which is consistent with 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 (2018: 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 our business activities having 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:

Energy or resources	Units	2019	2019 Intensities (note 1)	2018	2018 Intensities (note 1)
Electricity	kWh	**304,818.00**	**637.69**	333,774.94	671.58
Water	Tonnes	**1,990.00**	**4.16**	2,759.74	5.55
Paper	Kilograms	**1,582.50**	**3.31**	1,695.00	3.41
Petrol	Litres	**13,608.00**	**28.47**	22,762.22	45.80

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

During the Reporting period, 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’s vehicles for the purpose of business travel. The decrease in electricity and petrol usage during the Reporting Period indicates our efforts to decrease energy use have been successful for the time being.

We had no issue in sourcing water during the Reporting Period. Our water usage during the Reporting Period has decreased compared to the same period last year, which is an indication that our water efficiency initiatives to reduce water usage have been successful. We are merely a trading platform, hence we do not use packaging materials in the course of our business.

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

Aspect A3: Environment and Natural Resources

Other than the energy and resources as described in the previous section, our business operation, as a trading platform, does not involve the use of natural resources, and hence there was minimal adverse impact on the environment in this aspect during the Reporting Period. Nonetheless, as outlined in the next section titled “Environmental Protection Measures”, we are committed to environmental protection and have adopted and implemented various measures to reduce the negative impact on environment and habitat.

Environmental Protection Measures

The Group has adopted the following measures which are regularly carried out to achieve its ESG strategy in the course of its 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. Use of telephone or video conferencing for internal meetings and internal communications to reduce business travel thus reduce indirect GHG emissions;

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

  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. Investigating and exploring 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. Providing and promoting 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 monitoring consumption volume of energy, water and other resources;

  ix. Following 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. Providing 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, to conserve energy use and reduce unnecessary indirect GHG emissions due to excessive use of purchased electricity.

OUR EMPLOYEES

The Group values its employees and is committed to providing them with a fair and equitable workplace environment. This section details the various policies and practices adopted by the Group with regard 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 Group is committed to the compliance of, and had complied with, significant laws and regulations relating to the employment of labour of the relevant jurisdiction during the Reporting Period, which include:

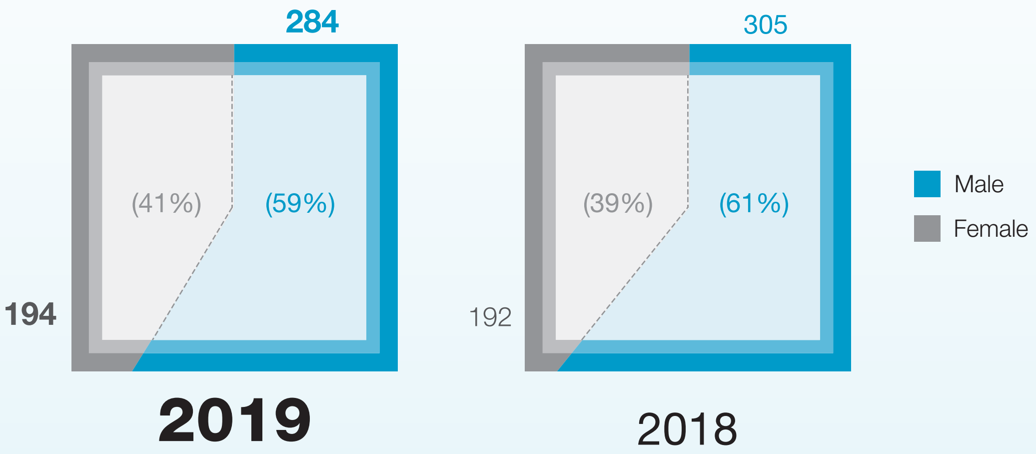
- The Employment Ordinance (Chapter 57 of the Laws of Hong Kong);
- The Sex Discrimination Ordinance (Chapter 480 of the Laws of Hong Kong);
- The Disability Discrimination Ordinance (Chapter 487 of the Laws of Hong Kong);
- The Family Status Discrimination Ordinance (Chapter 527 of the Laws of Hong Kong);
- The Race Discrimination Ordinance (Chapter 602 of the Laws of Hong Kong);
- The Labour Law of the People's 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).

There was no significant breach of labour laws and regulations during the Reporting Period (2018: nil). The Company encourages the employees at all levels to conduct themselves in an ethical manner with integrity, impartiality and honesty.

Workforce

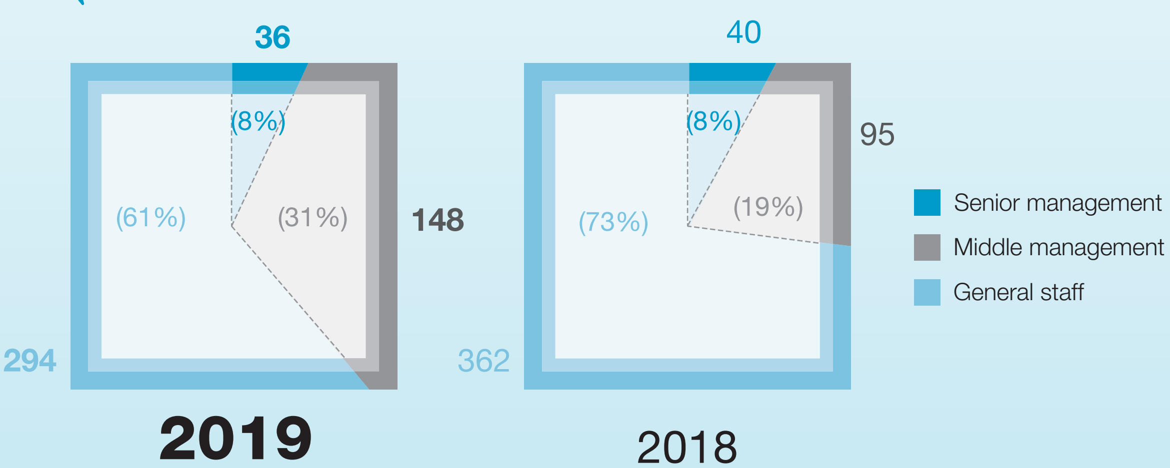
As at December 31, 2019, the Group had 478 employees in total (2018: 497), of which 22 employees worked part-time (2018: 32), while the rest of our employees worked full-time.

EMPLOYEES BY GENDER

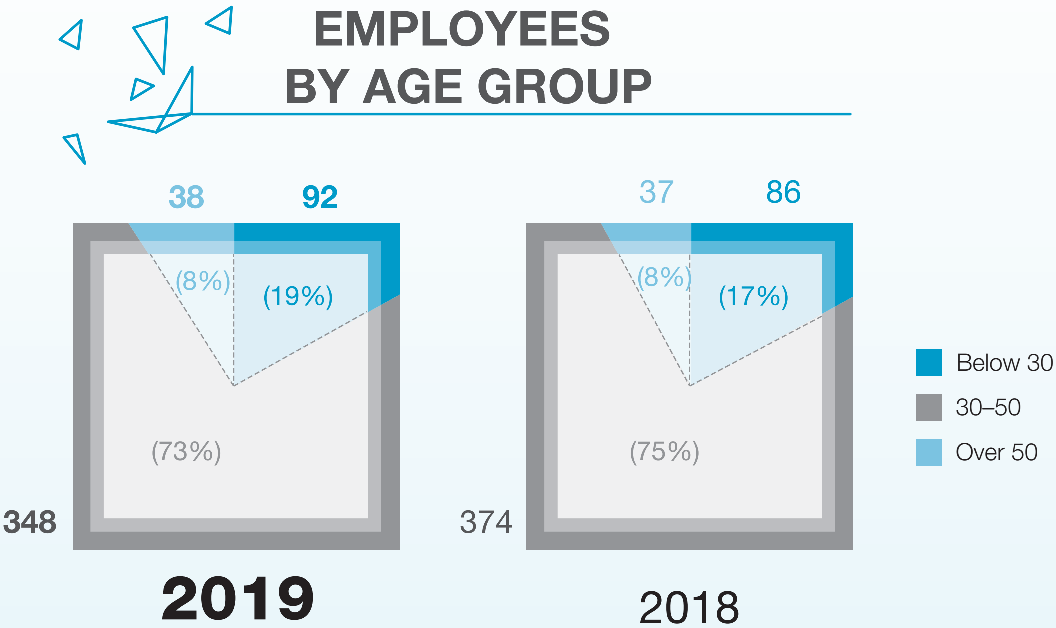


The ratio of male employees is slightly higher than female, at a male-to-female ratio of 1.46 (2018: 1.59).

EMPLOYEES BY ROLE



31% of the employees (2018: 19%) worked in middle management roles, while 61% of the employees (2018: 73%) worked as general staff. The remaining 8% of the employees (2018: 8%) were in the senior management roles. There was no significant change in the proportion of employees classified by its role compared to last year.

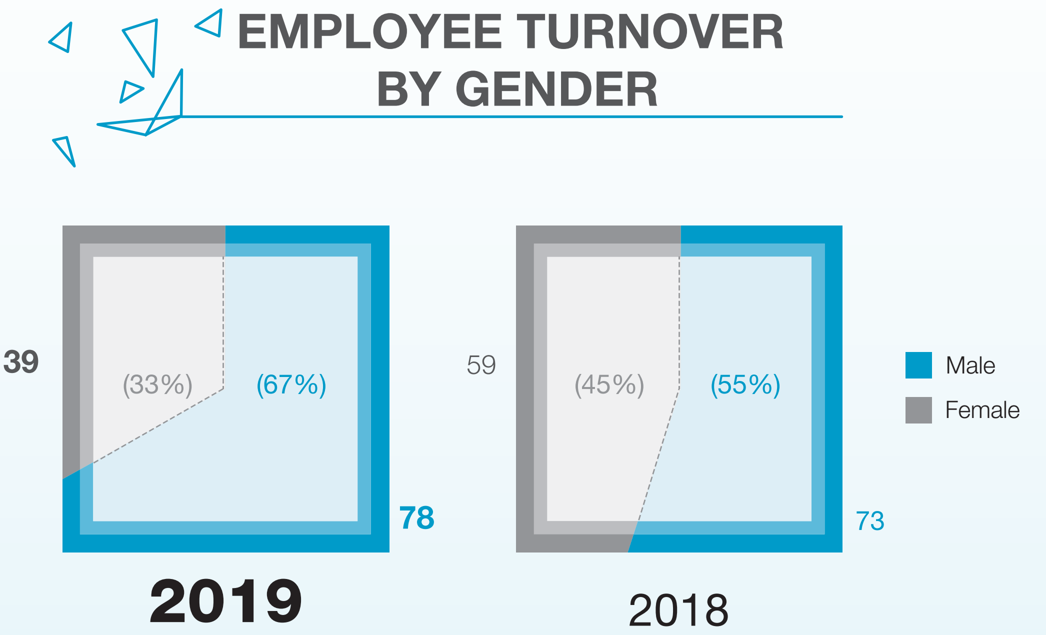


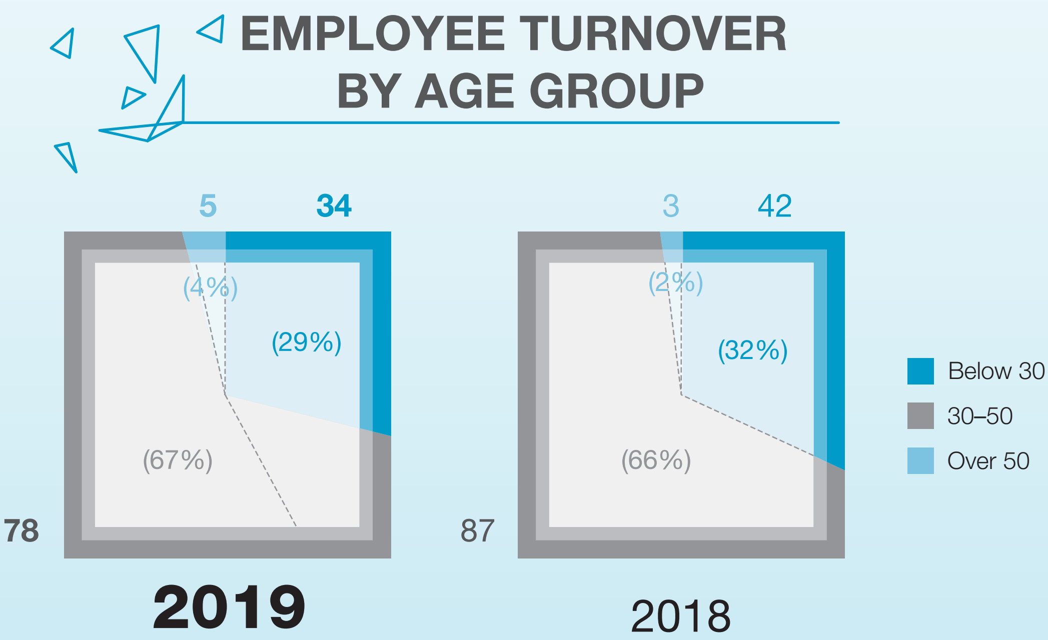
As at December 31, 2019, a majority of employees at 73% (2018: 75%) of the total were aged between 30 and 50, while 19% (2018: 17%) were under the age of 30, and the remaining 8% (2018: 8%) were aged above 50.

Geographically, the Group had 412 employees (2018: 430) working at offices and headquarter in China, and also 54 (2018: 53) and 12 employees (2018: 14) working to manage the business operations in Hong Kong and overseas respectively as at December 31, 2019.

Employee retention

During the Reporting Period, a total of 117 employees left the Group (2018: 132). The distributions of employee leavers by gender and age group were as follows:





The Group's employee turnover by geographic region were as follows:

- Mainland China: 112 (2018:122);
- Hong Kong: 3 (2018:5);
- Taiwan: 0 (2018:1); and
- Overseas: 2 (2018:4).

The Group has implemented an annual self-appraisal programme to provide incentives as a motivation for employees to attain periodic goals. Employees who are able to reach specific goals are rewarded 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, the 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 stipulated under PRC labour laws.

In addition to complying with laws and regulations that relate to the employment of labour mentioned above, the Group is also committed to the compliance of, and had complied with, significant laws and regulations relating to occupational health and safety during the Reporting Period 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 coverages 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.

In addition, we provide free body check-ups for employees annually to understand their physical health conditions and mitigate occupational or health risks. We also promote the importance of work-life balance and organize different leisure activities such as mini-marathon, yoga and ball games activities to employees regularly to ease their work pressure.

There was no significant work-related injury and no fatality recorded during the Reporting Period (2018: nil).

Aspect B3: Development and Training

The Company recognizes the importance of the continuity and development of professional knowledge and skills and has established policies 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 complements one another in this company training structure. These types of training cover topics related to corporate culture, professional and technical knowledge and soft skills training.

The Group provides equal 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 and job-related seminars which are conducted by professional training organizations, colleges or consulting companies.

In order to provide training sessions that suit the need of employees, each department of the Group formulates staff training plan annually and implements the plan accordingly throughout the year. After training has been completed, staff members are evaluated by the presenter to ensure he/she masters the relevant knowledge and skills timely. The Group reviews the implementation of training with various departments regularly, collects feedback and propose improvement measures to increase the effectiveness of training and ultimately provides professional knowledge for employees' career development.

Apart from providing training to its employees, the Group also provides three career development paths for employees, including management (such as Operation Director or Client Service Manager), marketing (Project Manager, Sales Manager or Sales Engineer, etc.) and professionals (Software Development Engineer, Accounting or Client Service, etc. In response to providing career development paths that are in line with the personal development of employees, the Company offers internal transfer opportunities to employees where possible with resources.

During the Reporting Period, there was a total of 3,050 training headcounts (2018: 3,547), and our employees had completed a total of approximately 7,515 training hours (2018: 4,698) which took place in the PRC. The average number of training hours for each employee is about 15.7 hours (2018: 9.5) during the Reporting Period. The Group has increased the total training hours during the Reporting Period to further enhance the skills of its employees. An analysis of these trainings by gender and by role is shown below:

	2019			2018		
	Number of employees*	Total training hours	Average training hours	Number of employees*	Total training hours	Average training hours
By gender						
Male	284	5,478	19.3	305	3,580	11.7
Female	194	2,037	10.5	192	1,118	5.8
Total	478	7,515	15.7	497	4,698	9.5
By role						
Senior management	36	360	10.0	40	384	9.6
Middle management	148	1,044	7.1	95	979	10.3
General staff	294	6,111	20.8	362	3,335	9.2
Total	478	7,515	15.7	497	4,698	9.5

* as at the end of the 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. The Group verifies the identity card of employees before employment and forbids the employment of children under the age of 16, regardless of full-time or part-time employees. The signing of labour contracts with employees are based on mutual agreement of the employee and the Company and both parties have equal rights to terminate the contract.

Based on the requirements set out in the relevant labour laws, we arrange reasonable work schedules 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. During the Reporting Period, the Group has complied with the relevant labour laws in making corporate contributions to employee's social security account which include pension, work-related injury, unemployment and housing provident fund in according to the required proportion stipulated by the government.

In addition to compliance with laws and regulations related to the employment of labour as previously mentioned, the Group is committed to the compliance of, and had complied with, significant laws and regulations relating to labour conditions and standards during the Reporting Period, 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 (中華人民共和國禁止使用童工規定); and
- The Employment Ordinance (Cap. 57 of the Laws of Hong Kong).

During the Reporting Period, there were no major irregularities (2018: nil) found with reference to the laws and regulations related to the employment of labour.

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. During the year, Cogobuy received recognition for "Most Valuable Small & Mid-Cap Company of 2018" (2018年金港股最具價值中小市值股公司大獎) from the Golden Hong Kong Stocks (「金港股」) Awards Ceremony, an event supported by nearly 180 Hong Kong listed companies. A panel of professional stock broker, economists and investors chose Cogobuy to commend its efforts in revenue growth, strong corporate governance, business model and capital markets performance during the year.

Aspect B5: Supply Chain Management

Cogobuy has maintained good practices to build up positive and long-term relationships with its suppliers. The Group has developed an open, collaborative and prosperous e-commerce ecosystem to benefit the business operation of its customers 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. Suppliers are entered into an authorised suppliers list through an approval process, which involves examining and verifying supplier's certifications, qualifications and reputation. After entering into an authorised suppliers list, 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 Group would continue business with existing suppliers with satisfactory performance and terminate those which were unsatisfactory.

In addition, to protect and enhance our reputation as an e-commerce platform, our staff also perform sample checks on goods to ensure both quality of the products listed, and the safety of our customers.

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 reputable product/service providers whose practices are in alignment with their social responsibilities and long-term sustainability of the environment, such as the commitment to maintain high standards of business ethics, conservation of environment and to enhance the well-being of their employees. Through working and collaborating with suppliers that share Cogobuy's vision in sustainability would help to ensure the sustainability of supply chain.

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.

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 and/or etc.

Furthermore, the Company has established policies and procedures for handling complaints. The customer service team takes immediate actions on receipt of any complaint and follows up until the issue is resolved. In case of inferior products that require recalling, the Group is in full compliance with 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) and The Product Quality Law of the People's Republic of China (中華人民共和國產品質量法) to provide maintenance, replacement of goods or refund based on the condition of the inferior products.

In order to ensure compliance with laws and regulations regarding the information we provide on our e-commerce platform, we regularly check its contents to ensure illicit contents, such as violence, pornography, hatred, superstition and/or gambling, etc., do not appear on our websites. The Group is committed to the compliance of, and had complied with, significant laws and regulations of the People's Republic of China relevant to product responsibility during the Reporting Period, 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 and the Ministry of Industry and Information Technology;
- 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 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).

We also consider privacy protection as an important factor of our business operation. We set up standard policies, guidelines and procedures for our employees to use, handle and protect the private or confidential information relating to suppliers, customers and other third-parties. Our employees are required to acknowledge these policies which require our employees to undergo approval procedures before these information can be released, and any loss of these information are required to be reported to the Management team immediately. There will also be serious consequences in case of breach of policies, which may include termination of employment and/or legal prosecution.

During the Reporting Period, the Group received no significant complaints from stakeholders (2018: 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 anti-money laundering and counter-financing of terrorism ("**AMLCFT**") policy in place together with relevant training in order to fulfil our regulatory obligations and to prevent AMLCFT crimes.

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

The Company is committed to the compliance of, and had complied with, significant laws and regulations relevant to anti-corruption practices during the Reporting Period, 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 relating to corruption (2018: 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 maintain close communication and interaction with the local communities and contribute to the development of these communities. The Group also encourages our employees to voluntarily participate 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.

During the Reporting Period, the Company was the organizer of the competition "創業之芯", which was held in Shenzhen, with the aim to build a platform to gather start-up companies and support these companies comprehensively in terms of industry resources, investment and financing. Our Group's platform with a wealth of resources in the AIoT industry have been beneficial and helpful to start-up companies as participants could use it to share resources with one another.

Independent Auditor's Report

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 88 to 222, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 2019, 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. 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.

Fair value determination of the identifiable assets and liabilities assumed through acquisition

Refer to note 39(a) to the consolidated financial statements and the accounting policies on page 103.

The key audit matter	How the matter was addressed in our audit
During the year ended 31 December 2019, the Group acquired 53% equity interests in BCT Technology (Hongkong) Co., Limited and Shenzhen Baochuang Technology Co., Ltd.* (深圳市寶創科技有限公司) (collectively referred to the "BCT Group") through capital contribution with an aggregate amount of approximately RMB2,265,000. Such acquisition was accounted for as a business combination using the acquisition accounting and resulted in recognition of goodwill of approximately RMB975,000. Pursuant to HKFRS 3 *Business Combinations,* the Group is required to measure the fair value of identifiable assets acquired, including any identifiable intangible assets, and liabilities assumed and any non-controlling interests in the acquiree, at the date of the acquisition. Any differences between (i) sum of the fair value of the consideration transferred and the non-controlling interests; and (ii) the fair value of net identifiable assets and liabilities assumed was recognised as goodwill arising on acquisition. The fair value assessment of the identifiable assets and liabilities assumed requires significant judgements and estimates adopted in the purchase price allocation exercised by an independent valuer and the management of the Group, particular in identification of intangible assets acquired. We have identified the fair value determination of the identifiable assets and liabilities assumed through acquisition as a key audit matter because of the involvement of significant degrees of judgements and estimates made by the management of the Group when performing the purchase price allocation exercise as at the date of acquisition.	Our audit procedures were designed to review the management's assessment, and its estimations and judgements used in measurement of the identifiable assets, including any identifiable intangible assets, and liabilities assumed and any non-controlling interests in the BCT Group, at the date of acquisition. We have discussed with the management of the Group and the independent valuer on the purchase price allocation exercise, including the identification and valuation of intangible assets. We also challenged the reasonableness of the underlying assumptions and data used in the purchase price allocation exercise, such as the forecasted sales, growth rate and discount rate used in the fair value assessment of the identifiable assets, including the intangible assets, and liabilities assumed, against the latest available information. We also challenged the reasonableness of the identification of the intangible assets arising from the acquisitions.

* the English name is for identification purpose only

Impairment of intangible assets and goodwill

Refer to notes 19 and 20 to the consolidated financial statements and the accounting policies on pages 104 and 114.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2019, the carrying amounts of the Group's intangible assets and goodwill are approximately RMB1,084,030,000 and RMB452,467,000 respectively, which were allocated to five different cash-generating units. The management of the Group performed impairment testing on the intangible assets and goodwill based on value-in-use calculations of each cash-generating unit, which was prepared by the independent valuer. We have identified the impairment of intangible assets and goodwill as a key audit matter because the amounts are significant to the consolidated financial statements as a whole and there is involvement of a significant degree of judgements and estimates made by the management of the Group when performing the impairment testing.	Our audit procedures were designed to review the management's assessment, and its estimations and judgements used in the impairment testing on goodwill and intangible assets. We have assessed the reasonableness of the identification of cash-generating units and the allocation of goodwill and its intangible assets for annual impairment testing. We have also assessed the impairment testing performed by the management of the Group. We have tested the underlying data and assumptions used in the profit forecasts and cash flow projections by agreeing the budgets approved by the management of the Group and compared with actual results available up to the report date. We have also challenged the reasonableness of the management judgements and estimates used in the profit forecasts and cash flow projections, including the forecasted sales and growth rate, against latest available information. We have also challenged the discount rate adopted by the independent valuer in the value-in-use calculations by reviewing its basis of calculation and comparing the input data to market sources.

Allowance for inventories

Refer to note 24 to the consolidated financial statements and the accounting policies on page 113.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2019, the carrying amount of the Group's inventories is approximately RMB319,974,000, net of allowance for inventories of approximately RMB45,242,000. We have identified the allowance for inventories as a key audit matter because the amount is significant to the consolidated financial statements as a whole and there is involvement of significant judgements and estimates made by the management of the Group when identifying obsolete and slow-moving inventories and determining the net realisable value ("NRV"), which are based on conditions and the marketability of the inventories.	Our audit procedures were designed to evaluate the management's assessment on the conditions and the marketability of obsolete and slow-moving inventories and identification of allowance for inventories. We have assessed the reasonableness of the basis of determining the NRV and evaluating the conditions and marketability of the inventories adopted by the management of the Group. We have performed testing on the ageing analysis of the inventories, on a sample basis, to source documents. We have tested the subsequent sales, on a sample basis, to source documents. We have also assessed the adequacy of allowance on obsolete and slow-moving inventories and the estimated NRV whereas the NRV is lower than the carrying amount with reference to the latest selling price, on a sample basis.

Loss allowance on trade receivables

Refer to note 25 to the consolidated financial statements and the accounting policies from pages 118 to 121.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2019, the carrying amount of the Group's trade receivables is approximately RMB1,233,808,000, net of loss allowance on trade receivables of approximately RMB77,911,000. We have identified the loss allowance on trade receivables as a key audit matter because the amount is significant to the consolidated financial statements as a whole and there is involvement of a significant degree of management's judgements and estimates involved in assessing the expected credit loss ("ECL") model, based on the historical credit loss experience and forward-looking information specific to the debtors and their economic environments.	Our audit procedures were designed to review the management's assessment of the ECL model adopted for the loss allowance on trade receivables. We have obtained an understanding of the methodology used, its development processes and relevant controls adopted by the management of the Group in the ECL model. We have also assessed the reasonableness of assumptions and judgements made by the management of the Group on the ECL model adopted, parameters selected and the internal credit rating used. We have also examined the key data used in the ECL model on a sample basis to assess their accuracy and reasonableness.

Loss allowance on loans receivables

Refer to note 26 to the consolidated financial statements and the accounting policies from pages 118 to 121.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2019, the carrying amount of the Group's loans receivables is approximately RMB818,943,000, representing the loans granted to customers, associates and non-controlling investees of the Group under the supply chain financing services, namely Ingfin Financing Services. We have identified the loss allowance on loans receivables as a key audit matter because the amount is significant to the consolidated financial statements as a whole and there is involvement of a significant degree of management's judgements and estimates involved in assessing the ECL model, based on historical credit loss experience and forward-looking information specific to the debtors and their economic environments.	Our audit procedures were designed to review the management's assessment of the ECL model adopted by the loss allowance on loans receivables. We have obtained an understanding of the methodology used, its development processes and relevant controls adopted by the management of the Group in the ECL model. We have also assessed the reasonableness of assumptions and judgements made by the management of the Group on the ECL model adopted, parameters selected and the internal credit rating used. We have also examined the key data used in the ECL model on a sample basis to assess their accuracy and reasonableness.

Fair value determination of financial assets at fair value through other comprehensive income

Refer to notes 6 and 21 to the consolidated financial statements and the accounting policies on page 123.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2019, included in the financial assets at fair value through other comprehensive income are investments in unlisted equity investments with aggregate amount of approximately RMB349,195,000, which were acquired during the year ended 31 December 2019. Independent valuer was engaged by the management of the Group for the fair value determination of each of the unlisted equity investments as at 31 December 2019. We have identified the fair value determination of financial assets at fair value through other comprehensive income as a key audit matter because the amount is significant to the consolidated financial statements as a whole and significant judgements and estimates, including use of significant unobservable inputs, have been adopted in the fair value determination by the management of the Group and the independent valuer at the end of the reporting period.	Our audit procedures were designed to review the reasonableness of judgements and estimates, including use of significant unobservable inputs adopted in the fair value determination by the management of the Group and the independent valuer. We have discussed with the independent valuer on the valuation methodology. And we have challenged the reasonableness of the underlying assumptions and data used by the management of the Group in the fair value assessment, such as the forecasted sales, gross profit margin and net profit used in the profit forecasts and cash flow projections, against the latest available information. We have also challenged the independent valuer for the earnings multiples adopted in the fair value assessment 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 judgement and maintain professional skepticism throughout the audit. We also:

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

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

- 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 year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Hong Kong
31 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	7	**5,854,247**	5,534,829
Cost of sales		**(5,288,607)**	(5,108,042)
Gross profit		**565,640**	426,787
Other income	9	**39,808**	82,776
Selling and distribution expenses		**(92,471)**	(111,180)
Research and development expenses		**(135,560)**	(126,979)
Administrative and other operating expenses		**(189,875)**	(98,679)
Finance costs	10	**(55,885)**	(47,749)
Gain on disposal of subsidiaries	40(b)	**—**	181,787
Loss on disposal of a joint venture		**(23)**	—
Share of results of associates		**31,153**	7,306
Share of results of joint ventures		**—**	(44)
Profit before tax		**162,787**	314,025
Income tax expenses	11	**(17,802)**	(16,239)
Profit for the year	12	**144,985**	297,786
Profit for the year attributable to:			
Owners of the Company		**110,067**	293,179
Non-controlling interests		**34,918**	4,607
		144,985	297,786

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 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 functional currency to presentation currency		**33,550**	131,905
Net change in fair value of equity investments at fair value through other comprehensive income		**3,869**	(13,920)
		37,419	117,985
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**–**	(312)
Reclassification adjustment for the cumulative loss included in profit or loss upon disposal of foreign operations		**–**	1,686
		–	1,374
Other comprehensive income for the year		**37,419**	119,359
Total comprehensive income for the year		**182,404**	417,145
Total comprehensive income for the year attributable to:			
Owners of the Company		**146,711**	412,172
Non-controlling interests		**35,693**	4,973
		182,404	417,145
EARNINGS PER SHARE	16		
Basic (RMB)		**0.077**	0.201
Diluted (RMB)		**0.076**	0.201

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Plant and equipment	17	**7,765**	9,497
Right-of-use assets	18	**24,546**	—
Intangible assets	19	**1,084,030**	451,246
Goodwill	20	**452,467**	451,492
Financial assets at fair value through other comprehensive income	21	**360,532**	7,700
Loans receivables	26	**155,847**	—
Interests in associates	22	**185,650**	162,787
Interest in a joint venture	23	**—**	—
		2,270,837	1,082,722
Current assets			
Inventories	24	**319,974**	860,361
Trade, bills and other receivables	25	**1,567,488**	1,401,940
Loans receivables	26	**663,096**	542,182
Amounts due from associates	27	**330,654**	575,708
Income tax recoverable		**—**	1,448
Financial assets at fair value through profit or loss	28	**—**	191,830
Short-term bank deposits	29	**—**	83,833
Pledged bank deposits	29	**159,858**	306,947
Cash and cash equivalents	29	**119,865**	926,997
		3,160,935	4,891,246
Current liabilities			
Trade and other payables	30	**854,316**	562,610
Lease liabilities	18	**11,490**	—
Contract liabilities	31	**3,978**	2,292
Income tax payables		**16,397**	—
Bank loans	32	**180,676**	1,125,860
		1,066,857	1,690,762
Net current assets		**2,094,078**	3,200,484
Total assets less current liabilities		**4,364,915**	4,283,206

Consolidated Statement of Financial Position (Continued)

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred tax liabilities	33	**51,609**	58,457
Lease liabilities	18	**13,297**	—
		64,906	58,457
Net assets		**4,300,009**	4,224,749
Capital and reserves			
Share capital	34	**1**	1
Reserves		**4,114,883**	4,074,427
		4,114,884	4,074,428
Non-controlling interests		**185,125**	150,321
Total equity		**4,300,009**	4,224,749

The consolidated financial statements on page 88 to 222 were approved and authorised for issue by the board of directors on 31 March 2020 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 2019

	Attributable to owners of the Company												
	Share capital RMB'000 (note 34)	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 (the "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 2019	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
Profit for the year	–	–	–	–	–	–	–	–	–	110,067	110,067	34,918	144,985
Other comprehensive income (expense)													
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	–	–	–	–	–	32,775	–	–	–	32,775	775	33,550
Net change in fair value of equity investments at fair value through other comprehensive income ("FVTOCI")	–	–	–	–	–	–	–	–	3,869	–	3,869	–	3,869
Total comprehensive income (expense) for the year	–	–	–	–	–	–	32,775	–	3,869	110,067	146,711	35,693	182,404
Reversal of fair value reserve upon disposal of financial assets at FVTOCI	–	–	–	–	–	–	–	–	3,600	(3,600)	–	–	–
Arising from business combinations (note 39(a))	–	–	–	–	–	–	–	–	–	–	–	(864)	(864)
Disposal of a subsidiary without loss of control	–	–	–	–	25	–	–	–	–	–	25	(25)	–
Issue of shares under the RSU Scheme (note 34(vii))	–	–	–	(26,118)	–	26,118	–	–	–	–	–	–	–
Equity-settled share-based compensation expenses (note 38)	–	–	–	25,443	–	–	–	–	–	–	25,443	–	25,443
Repurchase and cancellation of own shares (note 34(v))	–	(131,723)	–	–	–	–	–	–	–	–	(131,723)	–	(131,723)
At 31 December 2019	1	2,124,547	18,923	25,229	38,789	(60,176)	207,308	13,891	(6,451)	1,752,823	4,114,884	185,125	4,300,009

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2019

	Attributable to owners of the Company												
	Share capital RMB'000 (note 34)	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 (the "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 income (expense)													
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	–	–	–	–	–	131,539	–	–	–	131,539	366	131,905
Net change in fair value of equity investments at fair value through other comprehensive income	–	–	–	–	–	–	–	–	(13,920)	–	(13,920)	–	(13,920)
Exchange differences arising on translation of functional currency to presentation currency	–	–	–	–	–	–	(312)	–	–	–	(312)	–	(312)
Reclassification adjustment for the cumulate loss included in profit or loss upon disposal of foreign operation (note 40(b))	–	–	–	–	–	–	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
Arising from business combinations (note 39(b))	–	–	–	–	–	–	–	–	–	–	–	122,991	122,991
Disposal of interests in subsidiaries without losing the control (note 40(a))	–	–	–	–	65,050	–	–	–	–	–	65,050	4,950	70,000
Disposal of subsidiaries (note 40(b))	–	–	–	–	–	–	–	–	–	–	–	(11,968)	(11,968)
Equity-settled share-based compensation expenses (note 38)	–	–	–	21,496	–	–	–	–	–	–	21,496	–	21,496
Repurchase and cancellation of own shares (note 34(ii))	–	(13,755)	–	–	–	–	–	–	–	–	(13,755)	–	(13,755)
Repurchase shares for the RSU Scheme (note 34(iii))	–	–	–	–	–	(20,404)	–	–	–	–	(20,404)	–	(20,404)
Issue of shares under the RSU Scheme (note 34(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

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2019

Notes:

(i) Capital reserve

It represents an amount of US$3,000,000, equivalent to approximately RMB18,923,000, contributed by the shareholder of the Company in the form of cash during the year ended 31 December 2012.

(ii) Share-based compensation reserve

It represents the portion of the grant date fair value of the shares granted to the directors and employees of the Company and its subsidiaries under the RSU Scheme 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 the entire equity interest in Cogobuy Holding Limited and its subsidiaries. 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"), an indirect wholly-owned subsidiary of the Company, purchased the remaining 40% equity interest of Comtech Digital Technology (Hong Kong) Limited ("Comtech Digital HK"), an indirect non-wholly owned subsidiary of the Company, at a cash consideration of RMB240,000,000. The difference between the cash consideration and the relevant share of the carrying amount of the net assets of Comtech Digital HK, being approximately RMB212,482,000, was debited to other reserve.

On 18 January 2018, Cogobuy Group, Inc, a direct wholly-owned subsidiary of the Company, transferred its 30% equity interest in EZ Robot, Inc ("EZ Robot") in exchange of the entire equity interest in Shanghai Comtech Electronic Technology Co., Ltd. (上海科姆特電子技術有限公司) ("Shanghai Comtech") and its wholly-owned subsidiary, Shanghai E&T Automation System Co., Ltd. (上海科姆特自動化控制技術有限公司) ("Shanghai E&T Auto"). The difference between the amount of the value of consideration shares and the amount of non-controlling interest upon acquisition, amounting to approximately RMB65,050,000 (note 40(a)), was credited to other reserve.

On 9 April 2019, Hardeggs Holdings Limited ("Hardeggs"), an indirect subsidiary of 70% equity interest was indirectly held by the Company, and Texas Blockdata Inc. ("Texas Blockdata"), an independent third party to the Company, entered into a capital injection agreement (the "Capital Injection Agreement") for an acquisition of 70% equity interest in Cingko Holdings Limited ("Cingko"). On 14 May 2019, Hardeggs acquired 15,000 shares of Cingko and subsequently subscribed an additional 20,000 shares of Cingko were being subscribed by Hardeggs. The considerations were (i) cash consideration of HK$1; and (ii) provision of interest-free loan of approximately HK$500,000 to Cingko Technology (HK) Limited ("Cingko HK"). Cingko HK was a direct wholly-owned subsidiary of Cingko and was acquired from the Company before the date of this transaction.

As a result, the effective interest of Cingko HK held by the Company has been diluted from 100% to 49% and it was considered as disposal of a subsidiary without loss of control. The difference between (i) the amount of the fair value of consideration upon transfer and the amount of non-controlling interest upon acquisition; and (ii) net liabilities of Cingko HK, amounting to approximately RMB25,000, was credited to other reserve.

(iv) Shares held for the RSU Scheme

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

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

(v) Statutory reserves

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

For general reserve, appropriation to general reserve is at the discretion of the directors of the relevant subsidiaries in the PRC. 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 subsidiaries in the PRC is transferred to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the relevant subsidiaries in the PRC. The transfer to this reserve must be made before distribution of dividends. 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 subsidiaries in the PRC, 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 financial assets at fair value through other comprehensive income 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 2019

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**162,787**	314,025
Adjustments for:		
Depreciation of plant and equipment	**3,519**	2,172
Depreciation of right-of-use assets	**9,789**	—
Amortisation of intangible assets	**88,514**	1,522
Finance costs	**55,885**	47,749
Bank interest income	**(3,736)**	(27,480)
Loss allowance on trade receivables	**17,523**	35,276
Loss allowance on other receivables	**—**	6,166
Allowance for inventories	**18,500**	22,613
Loss on disposal of a joint venture	**23**	—
Share of results of associates	**(31,153)**	(7,306)
Share of results of joint ventures	**—**	44
Gain on disposal of subsidiaries	**—**	(181,787)
Gain on disposal of financial assets at fair value through profit or loss	**(3,774)**	—
Gain on disposal of a financial asset at fair value through other comprehensive income	**(3,600)**	—
Government grants	**(8,555)**	—
Loss on disposal of plant and equipment	**592**	326
Loss on write-off of plant and equipment	**—**	216
Equity-settled share-based compensation expenses	**25,443**	21,496
Operating cash flows before movements in working capital	**331,757**	235,032
Decrease (increase) in inventories	**557,190**	(314,297)
(Increase) decrease in trade, bills and other receivables	**(78,833)**	23,027
(Increase) decrease in loans and interest receivables	**(295,819)**	435,622
Increase (decrease) in trade and other payables	**204,136**	(73,423)
Increase (decrease) in contract liabilities	**1,686**	(1,299)
Decrease in deposits from customers	**—**	(589,178)
Cash generated from (used in) operations	**720,117**	(284,516)
Income tax paid	**(7,894)**	(23,572)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**712,223**	(308,088)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES		
Purchase of intangible assets	**(728,282)**	—
Purchase of financial assets at fair value through other comprehensive income	**(344,679)**	—
Purchase of financial assets at fair value through profit or loss	**—**	(191,830)
Net cash inflows on acquisition of subsidiaries (note 39)	**4,096**	(421,070)
Purchase of plant and equipment	**(1,952)**	(209)
Capital injection to a joint venture	**(292)**	—
Proceeds on disposal of plant and equipment	**470**	114
Proceeds on disposal of a financial asset at fair value through other comprehensive income	**3,600**	—
Interest received	**3,736**	27,480
Dividend from associates	**10,629**	760
Withdrawal of short-term bank deposits	**83,833**	—
Withdrawal of pledged bank deposits	**191,529**	195,757
Proceeds on disposal of financial assets at fair value through profit or loss	**195,604**	—
Repayment from associates	**249,336**	40,416
Placement of pledged bank deposits	**(42,061)**	(317,934)
Placement of short-term bank deposits	**—**	(81,890)
Net cash outflows on disposal of subsidiaries (note 40(b))	**—**	(39,229)
Payment for the acquisition of an associate	**—**	(2,393)
Net cash inflows on changes in ownership of subsidiaries (note 40(a))	**—**	9,953
NET CASH USED IN INVESTING ACTIVITIES	**(374,433)**	(780,075)
FINANCING ACTIVITIES		
New bank loans raised	**455,252**	359,555
Receipts of government grants	**8,555**	—
Repayment of bank loans	**(1,413,250)**	(363,218)
Repurchase of issued ordinary shares	**(131,723)**	(13,755)
Interest paid	**(55,885)**	(47,749)
Repayment of lease liabilities	**(9,548)**	—
Purchase of shares held for the RSU Scheme	**—**	(20,404)
NET CASH USED IN FINANCING ACTIVITIES	**(1,146,599)**	(85,571)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(808,809)**	(1,173,734)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**926,997**	2,048,431
Effect of foreign exchange rate changes	**1,677**	52,300
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**119,865**	926,997

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

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 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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. The address of the principal place of business of the Company is 11th Floor, Microsoft Comtech Tower, No. 55 Gaoxin South 9th Road, Nanshan District, Shenzhen, the PRC.

In the opinion of the directors of the Company, the immediate holding company and the ultimate holding company of the Group are 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 (hereinafter collectively referred to as the "Group") incorporated in Hong Kong is United States dollars ("US$") while the functional currency of the subsidiaries established in the PRC are Renminbi ("RMB"). The consolidated financial statements are presented in Renminbi ("RMB") for the convenience of users of the consolidated financial statements as the central management of the Group was located in the PRC.

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

In the current year, the Group has applied, for its first time, the following new and amendments to 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 16	Leases
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

The adoption of HKFRS 16 resulted in the changes in the Group's accounting policies and adjustments to the amounts recognised in the consolidated financial statements as summarised below.

The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

Impacts on adoption of HKFRS 16 *Leases*

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3. The Group has applied HKFRS 16 *Leases* retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17 *Leases*.

On transition to HKFRS 16 *Leases*, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 *Leases* only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 *Leases* and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 *Leases* has been applied only to contracts entered into or changed on or after 1 January 2019.

The Group as lessee

On adoption of HKFRS 16 *Leases*, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 *Leases* (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.7%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments — the Group applied this approach to all leases. There is no impact on the opening balances of equity.

The following table summarises the impact of transition to HKFRS 16 *Leases* at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018 RMB'000	Impact on adoption of HKFRS 16 RMB'000	Carrying amount as restated at 1 January 2019 RMB'000
Right-of-use assets	—	5,570	5,570
Lease liabilities — current portion	—	(3,322)	(3,322)
Lease liabilities — non-current portion	—	(2,248)	(2,248)

Note: At 1 January 2019, right-of-use assets were measured at an amount equal to the lease liabilities of approximately RMB5,570,000.

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

Impacts on adoption of HKFRS 16 *Leases* (Continued)

Practical expedients applied

On the date of initial application of HKFRS 16 *Leases*, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 *Leases* and HK(IFRIC)-Int 4 Determining whether an arrangement contains a lease;

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 *Leases* were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17 *Leases*. The total cash flows are unaffected. The adoption of HKFRS 16 *Leases* has not resulted in a significant change in presentation of cash flows within the consolidated statement of cash flows.

Differences between operating lease commitments as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follows:

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	25,044
Less: short-term leases and other lease with remaining lease term ended on or before 31 December 2019	(7,722)
	17,322
Discounted using the incremental borrowing rate at 1 January 2019	(11,752)
Lease liabilities as at 1 January 2019	5,570
Analysed as:	
Current portion	3,322
Non-current portion	2,248
	5,570

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

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 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

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

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 and by the Hong Kong Company Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss that are measured at fair values at the end of each reporting period.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries.

Control is achieved where the Group has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the Group's return.

When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

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.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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. 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* 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.

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.

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 at fair value or at the present ownership instruments' proportionate share in the recognised amount of the acquiree's identifiable net assets on a transaction-by-transaction basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 "Interests in associates and joint ventures" below.

Interests in associates and joint ventures

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 interests in associates and joint ventures are accounted for in the consolidated financial statements using the equity method. Under the equity method, interests in associates and joint ventures are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates and joint ventures 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates and joint ventures (Continued)

After application of the equity method, including recognising the associate's or joint venture's losses (if any), the Group determines whether there is an objective evidence that the net investment in the associate or joint venture is impaired. Goodwill that forms part of the carrying amount of the net 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 is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the net investment subsequently increases.

When the investment ceases to be a joint venture upon the Group losing joint control over the joint venture, the Group discontinues to apply equity method. Any difference between the fair value of any proceeds from disposing of the interest in the joint venture and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Sales of IC and other electronic components 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.

Leasing

Accounting Policy applicable on or after 1 January 2019

Definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

For contracts entered into on or after the date of initial application, the Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

All the lease payments included in the measurement of the lease liability are fixed lease payments.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Accounting Policy applicable on or after 1 January 2019 (Continued)

The Group as lessee (Continued)

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position.

The Group applies HKAS 36 *Property, Plant and Equipment* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Accounting policy applicable prior to 1 January 2019

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 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.

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, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint arrangement that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

Government grants

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

Government grants 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.

Short-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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred tax are recognised in profit or loss.

Plant and equipment

Plant and equipment (including right-of-use assets) 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 allocate the cost of items of plant and equipment 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 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 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 (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 lives 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 costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement 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 statement of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment losses.

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)

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 to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating unit for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) 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 cash-generating unit) 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 cash-generating unit) 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 in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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, FVTOCI and 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

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. 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.

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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 or losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value 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 profits.

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 (note 9).

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically, debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. Fair value is determined in the manner described in note 6.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 the end of each reporting period to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

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; or
- 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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; or
- 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of ECL

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 ECL 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.

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.

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.

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 equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is transferred to retained profits.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

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.

Financial liabilities

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

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination; (ii) held-for-trading; or (iii) 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, is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

When measuring fair value except for the Group's share-based payment transactions, leasing transactions, net realisable value of inventories and value-in-use of plant and equipment, right-of-use assets, interests in associates, goodwill and intangible assets 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 follows:

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 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 the RSU Scheme. The fair value of the RSUs granted to employees is recognised as an equity-settled share-based compensation expenses with a corresponding increase in share-based compensation reserve within equity. The fair value of the RSUs granted before the listing of the Company on the Main Board of the Stock Exchange (the "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 the 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 judgements, estimates and assumptions about the carrying amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. 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.

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

Critical judgements in applying accounting policies

The followings are the critical judgements, 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.

Control obtained through contractual arrangements

As disclosed in the note 43(c), Shenzhen Cogobuy Information Technologies Limited (深圳市可購百信息技術有限公司) ("Shenzhen Cogobuy") is considered as an indirectly wholly-owned subsidiary of the Company. Although the Group does not own any equity interest in Shenzhen Cogobuy, the Group has the control over Shenzhen Cogobuy since the Group has the power to appoint and remove the board of directors of Shenzhen Cogobuy to direct the relevant activities of Shenzhen Cogobuy to affect the amount of the Group's return, through various contractual agreements signed between the shareholder of Shenzhen Cogobuy and the Group. Therefore, in the opinion of the directors of the Company, the Group has the practical ability to direct the relevant activities of Shenzhen Cogobuy unilaterally and hence the Group has the control over Shenzhen Cogobuy.

Significant influence over associates

As disclosed in note 22, the directors of the Company considered ZIM (HK) Limited ("ZIM HK"), in which the Group has 15% equity interest in, 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 assets and goodwill

Determining whether intangible assets and goodwill are impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill and intangible assets have been allocated. The recoverable amount of the cash-generating unit is determined using the value-in-use calculation, which requires the Group to estimate the future cash flows expected to arise from each of the cash-generating unit and a suitable pre-tax 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 2019, the carrying amount of intangible assets and goodwill were approximately RMB1,084,030,000 (2018: RMB451,246,000) and RMB452,467,000 (2018: RMB451,492,000) respectively. No impairment loss in respect of intangible assets and goodwill has been recognised for the years ended 31 December 2019 and 2018. Details of the value-in-use calculations are disclosed in note 20.

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

Key sources of estimation uncertainty (Continued)

Amortisation of the intangible assets

At the end of each reporting period, the directors of the Company review the estimated useful life and the amortisation method of intangible assets, based on the historical experience of the actual useful life of intangible assets of similar functions or the useful life of similar intangible assets adopted by the market participants. The directors of the Company will revise the estimated useful life and amortisation method prospectively if there is a need for the change with reference to the actual usage. As at 31 December 2019, there is no revision of the estimated useful life and amortisation method on the intangible assets with carrying amount of approximately RMB1,084,030,000 (2018: RMB451,246,000).

Fair value determination of the identifiable assets and liabilities assumed through acquisition

As disclosed in note 39(a), the Group acquired 53% equity interests in BCT Technology (Hongkong) Co., Ltd. ("BCT HK") and Shenzhen Baochuang Technology Co., Ltd.* (深圳市寶創科技有限公司) ("Shenzhen Baochuang") (hereinafter collectively referred to as the "BCT Group") through capital contribution with an aggregate amount of approximately RMB2,265,000. The directors of the Company are required to measure the fair value of identifiable assets acquired, including any identifiable intangible assets, and liabilities assumed and any non-controlling interests in the BCT Group, at the date of the acquisition. Such fair value determination requires significant judgements and estimates adopted in the purchase price allocation exercised by the independent valuer and the management of the Group. Details of acquisition of subsidiaries by the Group during the year are set out in note 39(a).

Fair value determination of financial assets at FVTOCI

As disclosed in note 21, during the year ended 31 December 2019, the Group acquired of certain unlisted equity investments which are not quoted in an active market at an aggregate cash consideration of approximately RMB344,679,000. For the determination of the fair values of financial assets at FVTOCI as at 31 December 2019, the directors of the Company use their judgements and estimates in the underlying assumptions and data for the fair value determination of financial assets at FVTOCI. The directors of the Company are required to estimate the future cash flows expected to arise from these unlisted equity investments and apply the suitable earnings multiples or discounted factors. Where the actual future cash flows are less than expected, a material variance on the fair values of financial assets at FVTOCI may arise. As at 31 December 2019, the fair value of financial assets at FVTOCI was approximately RMB360,532,000 (2018: 7,700,000), with corresponding net increase in fair value reserve of approximately RMB3,869,000 (2018: decrease of fair value reserve of approximately RMB13,920,000) recognised during the year ended 31 December 2019. The directors of the Company believe that the chosen valuation techniques and assumptions are appropriate in determining the fair values of the fair values of financial assets at FVTOCI.

Allowance for inventories

Management reviews the condition of the inventories of the Group and makes allowances 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 and subsequent selling price in the ordinary course of business. 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 2019, the carrying amount of inventories was approximately RMB319,974,000 (2018: RMB860,361,000), net of allowance for inventories of approximately RMB45,242,000 (2018: RMB26,742,000).

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

Key sources of estimation uncertainty (Continued)

Loss allowance on trade receivables, loans receivables and amounts due from associates

The loss allowance on trade receivables, loans receivables and amounts due from associates are based on assumptions and estimates used in the ECL model. The Group uses significant judgements in making these assumptions and estimates and selects inputs in the ECL model, based on 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 loss allowance in the consolidated statement of profit or loss and other comprehensive income. As at 31 December 2019, the carrying amounts of trade receivables, loans receivables and amounts due from associates are approximately RMB1,233,808,000 (2018: RMB1,246,794,000), RMB818,943,000 (2018: RMB542,182,000) and RMB330,654,000 (2018: RMB575,708,000) respectively, with accumulated loss allowance on trade receivables of approximately RMB77,911,000 (2018: RMB147,159,000). No loss allowance on loans receivables and amounts due from associates have been recognised as at 31 December 2019 and 2018.

Income taxes

As disclosed in note 33, no deferred tax asset has been recognised in respect of the estimated unused tax losses of approximately RMB 197,456,000 (2018: RMB207,709,000) due to the unpredictability of future profit streams as at 31 December 2019. In addition, no deferred tax liabilities has been recognised in respect of temporary differences associated with the PRC subsidiaries' undistributed retained earnings of approximately RMB1,559,237,000 (2018: RMB1,617,404,000) 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 futures. In case where the actual outcome differs from the management's assessment above, a material recognition of deferred tax assets and liabilities may arise, which would be recognised in profit or loss for the year.

* the English name is for identification purpose only

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it 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 on a semi-annual basis. The Group's policy is to maintain the net debt-to-equity ratio at not more than 100% (2018: 100%), which is determined and reviewed with reference to the funding needs of the Group semi-annually. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes lease liabilities disclosed in note 18 and bank loans disclosed in note 32, net of pledged bank deposits, short-term bank deposits and cash and cash equivalents disclosed in note 29, over total equity. The net debt-to-equity ratio at the end of the reporting period was as follows:

	2019 RMB'000	2018 RMB'000
Net debt	**(74,260)**	(191,917)
Equity	**4,300,009**	4,224,749
Net debt-to-equity ratio (%)	**(1.73)**	(4.54)

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost (including cash and cash equivalents)	**2,733,508**	3,761,665
Financial assets at FVTPL	**—**	191,830
Financial assets at FVTOCI		
— Equity instruments designated at FVTOCI	**360,532**	7,700
	3,094,040	3,961,195
Financial liabilities		
Financial liabilities at amortised cost	**1,034,992**	1,688,470

Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and bills receivables, loan interest receivables, other receivables, financial assets at FVTPL and at FVTOCI, loans receivables, amounts due from associates, short-term bank deposits, pledged bank deposits, cash and cash equivalents, trade and other payables, lease liabilities 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), 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 Group has certain pledged bank deposits and cash and cash equivalents denominated in foreign currencies, i.e. a currency other than the functional currency of the subsidiaries of the Company, 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.

Sensitivity analysis

The Group has applied the sensitivity to a 5% increase and decrease in relevant foreign currencies against RMB. 5% (2018: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2018: 5%) change in foreign currency rates.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

As at 31 December 2019, the Group had an aggregate amount of approximately RMB51,954,000 (2018: RMB22,109,000) which represented pledged bank deposits and cash and cash equivalents that mainly denominated in US$, which is a currency other than the functional currencies of the subsidiaries of the Company.

As at 31 December 2019, if the foreign currencies strengthen 5% against RMB, the post-tax profit for the year will be increased by approximately RMB1,958,000 (2018: RMB844,000). If the foreign currencies weaken by 5% against RMB, the post-tax profit for the year will be decreased by approximately RMB1,958,000 (2018: RMB844,000).

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed interest rate loans receivables (note 26), short-term bank deposits (note 29), pledged bank deposits (note 29), lease liabilities (note 18) and a bank loan with fixed interest rate (note 32).

The Group is also exposed to cash flow interest rate risk in relation to variable interest rate bank balances (note 29) and bank loans with variable interest rates (note 32). 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's cash flow interest rate risk is mainly concentrated on the fluctuation of London Interbank-Offered Rate ("LIBOR") 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 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 (2018: 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 (2018: 50) basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would decrease/increase by approximately RMB114,000 (2018: RMB4,770,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank balances and bank loans.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group 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 receivables, amounts due from associates, pledged bank deposits, short-term bank deposits and cash and cash equivalents. 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.

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 customers 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 receivables, and other non-trade related receivables and amounts due from associates, 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 pledged bank deposits, short-term bank deposits and cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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 in credit risk, 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-party guarantees or credit enhancements;
- significant increase in credit risk on other financial instruments of the borrower; and
- 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.

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.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

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:

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	31 December 2019 Gross carrying amount RMB'000	31 December 2019 Loss allowance RMB'000	31 December 2019 Net carrying amount RMB'000	31 December 2018 Gross carrying amount RMB'000	31 December 2018 Loss allowance RMB'000	31 December 2018 Net carrying amount RMB'000
Trade receivables	25	N/A	(Note)	Lifetime ECL (simplified approach)	1,311,719	(77,911)	1,233,808	1,393,953	(147,159)	1,246,794
Bills receivables	25	N/A	Performing	12-month ECL	10,935	–	10,935	48,923	–	48,923
Loan interest receivables	25	N/A	Performing	12-month ECL	45,190	–	45,190	15,195	–	15,195
Other receivables	25	N/A	Performing	12-month ECL	14,255	–	14,255	15,086	–	15,086
Other receivables	25	N/A	Default	Lifetime ECL —credit impaired	–	–	–	6,166	(6,166)	–
Loans receivables	26	N/A	Performing	12-month ECL	818,943	–	818,943	542,182	–	542,182
Amounts due from associates	27	N/A	Performing	12-month ECL	330,654	–	330,654	575,708	–	575,708

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 on individual basis for customers with significant balances and/or collectively 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 25 includes further details on the loss allowance on these assets respectively.

The carrying amounts of the Group's financial assets at FVTOCI and at FVTPL as disclosed in notes 21 and 28 respectively best represent their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

The Group has concentration of credit risk as 35% (2018: 51%) and 61% (2018: 64%) 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 2019.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The Group's concentration of credit risk by geographical locations is mainly in the PRC (including Hong Kong), which accounted for 94% (2018: 98%) of the total trade receivable as at 31 December 2019.

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 board of directors of the Company when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with loan covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group relies on bank loans as a significant source of liquidity. Details of the available bank facilities as at 31 December 2019 are disclosed in note 32. The Group did not have any breach of loan covenants as at 31 December 2019 and 2018.

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. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

	At 31 December 2019				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	854,316	—	—	854,316	854,316
Lease liabilities	12,907	10,223	3,756	26,886	24,787
Bank loans	182,467	—	—	182,467	180,676
	1,049,690	10,223	3,756	1,063,669	1,059,779

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	At 31 December 2018				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	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

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 amount of these bank loans amounted to approximately RMB963,353,000 (2019: nil). Taking into account the Group's financial position, the directors of the Company do not believe that the banks will exercise their discretionary rights to demand for 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 of bank loans will amount to approximately RMB1,172,518,000.

The amounts included above for variable interest rate 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.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period, grouped into fair value hierarchy 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 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets at FVTOCI				
Unlisted equity securities	**—**	**—**	**360,532**	**360,532**

	At 31 December 2018			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Structured deposits	—	191,830	—	191,830
Financial assets at FVTOCI				
Unlisted equity securities	—	—	7,700	7,700

There were no transfers between levels of fair value hierarchy in the current 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 2019 RMB'000	Fair value as at 31 December 2018 RMB'000	Valuation technique	Significant unobservable inputs	Range	Relationship of key inputs and significant unobservable inputs to fair value
Structured deposits	Level 2	–	191,830	Quoted rate of return by issuing bank	N/A	N/A	N/A
Unlisted equity investments	Level 3	349,195	–	Market approach — earnings multiples	Earnings multiples	From 18.37 times to 20.92 times	The higher of earnings multiple, the higher the fair value
Unlisted equity fund	Level 3	11,337	7,700	Adjusted net assets method	Discount factor of 100% applied to projects with net liabilities	0%–100%	The lower the discount rate, the higher of the fair value
		360,532	7,700				

For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, if the unobservable inputs (earnings multiples for unlisted equity investments and discount factor of unlisted equity fund) to the valuation model were 5% (2018: 5%) higher/lower while all the other variables were held constant, the fair value of the financial assets at FVTOCI would be increased by approximately RMB16,889,000 (2018: RMB374,000)/decreased by approximately RMB16,842,000 (2018: RMB293,000) respectively.

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 (Continued)

Reconciliation of Level 3 fair value measurements of financial assets on recurring basis:

	Unlisted equity investments/ equity fund RMB'000
At 1 January 2018	20,918
Fair value loss in other comprehensive income	(13,920)
Exchange adjustment	702
At 31 December 2018 and 1 January 2019	7,700
Acquisition of unlisted equity investments	344,679
Fair value gain in other comprehensive income	3,869
Exchange adjustment	4,284
At 31 December 2019	360,532

For the year ended 31 December 2019, the fair value gain recognised in other comprehensive income of approximately RMB3,869,000 (2018: unrealised loss of RMB13,920,000) was unrealised gain or loss on unlisted equity investments and equity fund designated at FVTOCI held at the end of the reporting period.

Fair value of financial instruments that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of other current financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements are not materially differ from their fair values due to their immediate or short-term maturities.

7. REVENUE

Revenue represents revenue arising on sales of IC and other electronic components, 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:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15:		
— Sales of IC and other electronic components	**5,790,399**	5,427,785
— Marketplace income	**16,346**	40,778
	5,806,745	5,468,563
Revenue from other sources:		
— Interest income from IngFin Financing Services	**47,502**	66,266
	5,854,247	5,534,829

7. REVENUE (Continued)

Set out below is the disaggregation of the Group's revenue from contracts with customers by (i) timing of recognition; and (ii) geographical markets, arising from different reporting segments:

	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 2019			
Revenue from goods and services:			
— Sales of IC and other electronic components	4,268,737	1,521,662	5,790,399
— Marketplace income	15,368	978	16,346
	4,284,105	1,522,640	5,806,745
Timing of revenue recognition:			
— At a point in time	4,284,105	1,522,640	5,806,745
Geographical markets:			
— The PRC (including Hong Kong)	3,981,728	1,522,640	5,504,368
— Southeast Asia	302,377	—	302,377
	4,284,105	1,522,640	5,806,745

7. REVENUE (Continued)

	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:			
— At a point in time	4,711,780	756,783	5,468,563
Geographical markets:			
— The PRC (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 (the “CODM”), for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services provided. The executive directors of the Company have chosen to organise the Group around differences in products and services.

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

— Sales of IC and other electronic components and marketplace operation (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 business.

Sales of IC and other electronic components and marketplace operation (except for AIoT products), identified by the chief operating decision maker, have been aggregated in arriving at one reportable segment 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 products and incubator business from “Sales of IC and other electronic components and marketplace operation” to “Ingdan services” so as to enhance operational efficiency. The chief operating decision maker considers that sales of products and marketplace operation provided for AIoT products, 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”.

8. SEGMENT INFORMATION (Continued)

Segment revenues and results

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

For the year ended 31 December 2019

	Sales of IC and other electronic components and marketplace operation RMB'000	Ingdan services RMB'000	Total RMB'000
Segment revenue	4,284,105	1,570,142	5,854,247
Segment profit	287,993	49,616	337,609
Unallocated income			39,808
Unallocated corporate expenses			(189,875)
Unallocated finance costs			(55,885)
Loss on disposal of a joint venture			(23)
Share of results of associates			31,153
Profit before tax			162,787

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administrative and other operating expenses, gain on disposal of subsidiaries, other income, finance costs, share of results of associates, share of result of a joint venture and loss on disposal 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 segments:

Segment assets

	2019 RMB'000	2018 RMB'000
Sales of IC and other electronic components and marketplace operation	**1,744,913**	1,388,409
Ingdan services	**2,852,031**	2,198,670
Total segment assets	**4,596,944**	3,587,079
Interests in associates	**185,650**	162,787
Interest in a joint venture	**—**	—
Corporate and other assets	**649,178**	2,224,102
Total assets	**5,431,772**	5,973,968

Segment liabilities

	2019 RMB'000	2018 RMB'000
Sales of IC and other electronic components and marketplace operation	**697,414**	413,510
Ingdan services	**101,140**	113,504
Total segment liabilities	**798,554**	527,014
Corporate and other liabilities	**333,209**	1,222,205
Total liabilities	**1,131,763**	1,749,219

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

— All assets are allocated to operating segments, other than right-of-use assets, interests in associates and a joint venture, financial assets at FVTPL, certain other receivables, amounts due from associates, income tax recoverable, short-term bank deposits, pledged bank deposits, cash and cash equivalents and other corporate assets; and

— All liabilities are allocated to operating segments, other than other payables and accruals, lease liabilities, income tax payables, bank loans and deferred tax liabilities.

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2019

	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:				
Additions to non-current assets (note)	1,952	729,230	28,765	759,947
Depreciation and amortisation	3,202	88,831	9,789	101,822
Loss allowance on trade receivables	14,917	2,606	—	17,523
Loss on disposal of plant and equipment	592	—	—	592
Allowance for inventories, net	14,720	3,780	—	18,500
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:				
Gain on disposal of financial asset at FVTOCI	—	—	(3,600)	(3,600)
Gain on disposal of financial asset at FVTPL	—	—	(3,774)	(3,774)
Bank interest income	—	—	(3,736)	(3,736)
Finance costs	—	—	55,885	55,885
Interests in associates	—	—	185,650	185,650
Interest in a joint venture	—	—	—	—
Share of results of associates	—	—	(31,153)	(31,153)
Loss on disposal of a joint venture	—	—	23	23
Income tax expenses	—	—	17,802	17,802

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

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:				
Additions 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 plant and equipment	326	—	—	326
Loss on write-off of plant and equipment	216	—	—	216
Reversal of allowance for inventories, net	(18,803)	(12,022)	—	(30,825)
Amounts regularly provided to the CODM 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)
Finance costs	—	—	47,749	47,749
Interests in associates	—	—	162,787	162,787
Share of results of associates	—	—	(7,306)	(7,306)
Share of results of joint ventures	—	—	44	44
Income tax expenses	—	—	16,239	16,239

Note: Non-current assets excluded goodwill, loans receivables, financial assets at FVTOCI and interests in associates and a joint venture.

8. SEGMENT INFORMATION (Continued)

Geographical information

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

Information about major customers

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

	2019 RMB'000	2018 RMB'000
Customer A[1]	**1,084,586**	1,118,890

[1] Revenue from sales of IC and other electronic components and marketplace operation.

9. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Exchange gain, net	**16,194**	53,221
Bank interest income	**3,736**	27,480
Commission income	**3,949**	1,168
Gain on disposal of financial assets at FVTPL	**3,774**	—
Gain on disposal of a financial asset at FVTOCI	**3,600**	—
Government grants (note)	**8,555**	907
	39,808	82,776

Note: The amount represented government grants 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

	2019 RMB'000	2018 RMB'000
Interests on bank loans	**39,667**	47,749
Interests on lease liabilities	**953**	—
Factoring costs	**15,265**	—
	55,885	47,749

11. INCOME TAX EXPENSES

	2019 RMB'000	2018 RMB'000
Current tax:		
PRC Enterprises Income Tax ("EIT")	**9,713**	8,538
Hong Kong Profits Tax	**14,102**	7,949
Other jurisdiction	**1,820**	4
	25,635	16,491
Deferred tax (note 33)	**(7,833)**	(252)
	17,802	16,239

11. INCOME TAX EXPENSES (Continued)

Notes:

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

(ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the years ended 31 December 2019 and 2018, Hong Kong Profits Tax of the qualified entities of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other entities of the Group 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%.

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

(iv) Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2018 onwards.

(v) Qianhai Cogobuy.com Communication Technology (Shenzhen) Limited* (前海科通芯城通信技術(深圳)有限公司) ("Qianhai Cogobuy") and INGDAN.com (Shenzhen) Limited* (硬蛋科技(深圳)有限公司) ("INGDAN Shenzhen"), being qualified software enterprises, are each granted two-year tax exemption followed by three-year 50% tax reduction under the then effective tax regulations during 2015. As a result, they are exempted from EIT for 2015 and 2016, and are subject to EIT at 12.5% from 2017 to 2019.

(vi) Shenzhen FOXSAAS Software Technology Limited* (深圳赤狐軟件技術有限公司) ("Shenzhen FOXSAAS") and Shenzhen Xeno Communication Technology Company Limited* (深圳市協諾通信技術有限公司) ("Shenzhen Xeno"), 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 EIT for 2018 and 2019, and are subject to EIT at 12.5% from 2020 to 2022.

(vii) According to the prevailing the EIT law and its relevant regulations, non-PRC resident enterprises are levied on 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).

* The English name is for identification purpose only

11. INCOME TAX EXPENSES (Continued)

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

	2019 RMB'000	2018 RMB'000
Profit before tax	**162,787**	314,025
Tax at the applicable income tax rate of 25% (2018: 25%)	**40,697**	78,506
Tax effect of two-year exemption and three-year reduction	**(1,882)**	(48,780)
Tax effect of entities with jurisdictions not subject to income tax	**74**	1,134
Tax effect of share of results of associates	**(7,788)**	(1,827)
Tax effect of share of results of joint ventures	**—**	11
Tax effect of income not taxable for tax purposes	**(2,058)**	(46,651)
Tax effect of expenses not deductible for tax purposes	**2,046**	10,019
Tax effect of utilisation of tax losses previously not recognised	**(5,799)**	—
Tax effect of tax losses not recognised	**2,522**	20,181
Effect of two-tiered profits tax rates regime	**(145)**	(139)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(9,639)**	3,870
Effect of Hong Kong Profits Tax exemption granted (note)	**(226)**	(85)
Income tax expenses	**17,802**	16,239

Note: Hong Kong Profits Tax exemption granted represented a reduction of Hong Kong Profits Tax for the year ended 31 December 2019, subject to a ceiling of HK$20,000 (2018: HK$20,000) (equivalent to approximately RMB18,000 (2018: RMB17,000)) for each entity.

Details of the deferred taxation are set out in note 33.

12. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' and chief executive's emoluments (note 13)	**3,204**	4,321
Other staff:		
— Salaries, wages, allowance and other benefits	**90,209**	119,111
— Retirement benefit scheme contributions	**18,535**	21,918
— Equity-settled share-based compensation expenses (note 38)	**25,443**	21,496
Total staff costs	**137,391**	166,846
Amortisation of intangible assets	**88,514**	1,522
Depreciation of plant and equipment	**3,519**	2,172
Depreciation of right-of-use assets	**9,789**	—
Auditors' remuneration	**5,801**	5,796
Loss allowance on trade receivables (included in selling and distribution expenses)	**17,523**	35,276
Loss allowance on other receivables	**—**	6,166
Loss on disposal of plant and equipment	**592**	326
Loss on write-off of plant and equipment	**—**	216
Allowance for (reversal of allowance for) inventories, net (included in cost of sales)	**18,500**	(30,825)
Operating lease charges in respect of rented premises	**7,722**	17,008
Research and development expenses (note)	**135,560**	126,979
Amount of inventories recognised as an expense	**5,270,107**	5,079,657

Note: Research and development expenses include staff cost of employees in the design, research and development function of approximately RMB69,795,000 (2018: RMB76,791,000) for the year ended 31 December 2019, and such amount is also included in the staff costs as disclosed above.

Research and development expenses also include operating lease charges in respect of rented premises of nil (2018: RMB6,225,000), and amortisation and depreciation charge of approximately RMB1,023,000 (2018: RMB981,000) for the year ended 31 December 2019, and such amounts are also included in the operating lease charges in respect of rented premises, amortisation of intangible assets and depreciation of plant and equipment respectively as disclosed above.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the 6 (2018: 8) directors and the chief executive were as follows:

	Directors' fee RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2019					
Executive directors					
Mr. Kang Jingwei, Jeffrey ("Mr. Kang")	–	1,000	–	16	1,016
Mr. Wu Lun Cheung Allen (note (iv))	–	1,115	–	16	1,131
Ms. Ni Hong, Hope ("Ms. Ni")	261	–	–	13	274
Independent non-executive directors					
Mr. Ye Xin	261	–	–	–	261
Dr. Ma Qiyuan	261	–	–	–	261
Mr. Hao Chunyi, Charlie (note (ii))	261	–	–	–	261
	1,044	2,115	–	45	3,204

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	Discretionary bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2018					
Executive directors					
Mr. Kang	—	1,000	—	15	1,015
Mr. Wu Lun Cheung Allen (note (iv))	—	1,000	1,265	15	2,280
Ms. Ni	253	—	—	13	266
Non-executive director					
Mr. Kim Jin Ha, Jason (note (i))	—	—	—	—	—
Independent non-executive directors					
Mr. Ye Xin	253	—	—	—	253
Dr. Ma Qiyuan	253	—	—	—	253
Mr. Hao Chunyi, Charlie (note (ii))	223	—	—	—	223
Mr. Zhong Xiaolin, Forrest (note (iii))	31	—	—	—	31
	1,013	2,000	1,265	43	4,321

Notes:

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

(ii) Appointed on 13 February 2018.

(iii) Resigned on 13 February 2018.

(iv) Included in salaries, allowance and other benefits was the amount of approximately RMB150,000 (2018: nil) paid for the housing benefit provided by the Group.

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.

The emoluments of Ms. Ni, the non-executive director and the independent non-executive directors 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.

Discretionary bonuses disclosed above were determined by the Remuneration Committee of the Company with reference to the individual performance. During the year 31 December 2019, no discretionary bonus was issued to the executive directors, non-executive directors and Independent non-executive directors (2018: RMB1,265,000).

Neither the chief executive nor any of the directors of the Company waived or agreed to waive the emoluments paid by the Group during the years ended 31 December 2019 and 2018. 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 2019 and 2018.

(b) Directors' retirement benefits and termination benefits

Save as disclosed in note 13(a), the directors of the Company did not receive any other retirement benefits or termination benefits during the years ended 31 December 2019 and 2018.

(c) Consideration provided to third parties for making available directors' services

No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the year or at any time during the years ended 31 December 2019 and 2018.

(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 of the Company, their controlled bodies corporate and connected entities subsisted at the end of the year or any time during the years ended 31 December 2019 and 2018.

(e) Directors' material interests in transactions, arrangements or contracts of significance

Except as disclosed in note 36(a), no significant transactions, arrangements or 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 2019 and 2018.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, no (2018: one) director of the Company whose emoluments is included in the disclosures in note 13 above. The emoluments of five (2018: four) highest paid individuals were as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowance and other benefits	**4,895**	4,560
Retirement benefit scheme contributions	**123**	193
Share-based compensation expenses	**8,164**	8,903
	13,182	13,656

Their emoluments were within the following bands:

	2019 Number of individuals	2018 Number of individuals
HK$2,500,001 (equivalent to approximately RMB2,204,000 (2018: RMB2,082,000)) to HK$3,000,000 (equivalent to approximately RMB2,645,000 (2018: RMB2,498,000))	**2**	1
HK$3,000,001 (equivalent to approximately RMB2,645,000 (2018: RMB2,498,000)) to HK$3,500,000 (equivalent to approximately RMB3,086,000 (2018: RMB2,914,000))	**3**	2
HK$7,000,001 (equivalent to approximately RMB6,172,000 (2018: RMB5,829,000)) to HK$7,500,000 (equivalent to approximately RMB6,613,000 (2018: 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 2019 and 2018.

14. EMPLOYEES' EMOLUMENTS (Continued)

The emoluments of the senior management (including executive directors and chief executive of the Company) were within the following bands:

	2019 Number of individuals	2018 Number of individuals
HK$ nil to HK$1,000,000 (equivalent to approximately RMB882,000 (2018: RMB833,000)	**2**	2
HK$1,000,001 (equivalent to approximately RMB882,000 (2018: RMB833,000)) to HK$1,500,000 (equivalent to approximately RMB1,322,000 (2018: RMB1,249,000))	**3**	1
HK$1,500,001 (equivalent to approximately RMB1,322,000 (2018: RMB1,249,000)) to HK$2,000,000 (equivalent to approximately RMB1,763,000 (2018: RMB1,665,000))	**–**	2
HK$2,500,001 (equivalent to approximately RMB2,204,000 (2018: RMB2,082,000)) to HK$3,000,000 (equivalent to approximately RMB2,645,000 (2018: RMB2,498,000))	**1**	1
HK$3,000,001 (equivalent to approximately RMB2,645,000 (2018: RMB2,498,000)) to HK$3,500,000 (equivalent to approximately RMB3,086,000 (2018: RMB2,914,000))	**1**	–
HK$7,000,001 (equivalent to approximately RMB6,172,000 (2018: RMB5,829,000)) to HK$7,500,000 (equivalent to approximately RMB6,613,000 (2018: RMB6,245,000))	**–**	1

15. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

16. EARNINGS PER SHARE

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

	2019 RMB'000	2018 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	**110,067**	293,179

	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,430,088**	1,455,555
Effect of dilutive potential ordinary shares:		
Deemed issue of shares under the Company's RSU scheme for nil consideration	**13,839**	2,591
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	**1,443,927**	1,458,146

17. PLANT AND EQUIPMENT

	Motor vehicles RMB'000	Leasehold improvements RMB'000	Furniture and office equipment RMB'000	Total RMB'000
COST				
At 1 January 2018	817	7,058	8,382	16,257
Addition	—	—	209	209
Acquired on acquisition of subsidiaries (notes 39(b) and 40(a))	19	—	640	659
Disposal	—	—	(858)	(858)
Write-off	—	—	(283)	(283)
Disposal of subsidiaries	—	—	(555)	(555)
Exchange adjustments	6	49	78	133
At 31 December 2018 and 1 January 2019	842	7,107	7,613	15,562
Additions	315	—	1,637	1,952
Acquired on acquisition of subsidiaries (note 39(a))	210	—	634	844
Disposal	—	—	(2,093)	(2,093)
Exchange adjustments	14	50	52	116
At 31 December 2019	1,381	7,157	7,843	16,381
DEPRECIATION				
At 1 January 2018	320	2,358	1,760	4,438
Charge for the year	171	706	1,295	2,172
Eliminated on disposal	—	—	(418)	(418)
Eliminated on write-off	—	—	(67)	(67)
Disposal of subsidiaries	—	—	(90)	(90)
Exchange adjustments	2	16	12	30
At 31 December 2018 and 1 January 2019	493	3,080	2,492	6,065
Charge for the year	188	711	2,620	3,519
Eliminated on disposal	—	—	(1,031)	(1,031)
Exchange adjustments	9	20	34	63
At 31 December 2019	690	3,811	4,115	8,616
CARRYING VALUES				
At 31 December 2019	691	3,346	3,728	7,765
At 31 December 2018	349	4,027	5,121	9,497

17. PLANT AND EQUIPMENT (Continued)

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 shorter of the term of the lease or 5 years
Furniture and office equipment	Over 1 to 5 years

18. LEASES

(a) Right-of-use assets

	31 December 2019 RMB'000	1 January 2019 RMB'000
Buildings	**24,546**	5,570

The Group has lease arrangements for office buildings, factories and warehouses with the lease terms of generally ranged from two to four years.

Additions to the right-of-use assets and lease liabilities for the year ended 31 December 2019 amounted to approximately RMB28,765,000, due to new leases of buildings.

Included in the right-of-use assets as at 31 December 2019 were approximately RMB1,942,000 (1 January 2019: nil) arising from leases with Comtech Communication Technology (Shenzhen) Company Limited* (科通通信技術(深圳)有限公司) ("CCT Shenzhen"), in which Mr. Kang has beneficial interest.

* The English name is for identification purpose only

(b) Lease liabilities

	31 December 2019 RMB'000	1 January 2019 RMB'000
Non-current	**13,297**	2,248
Current	**11,490**	3,322
	24,787	5,570

18. LEASES (Continued)

(b) Lease liabilities (Continued)

Included in the lease liabilities as at 31 December 2019 were approximately RMB1,974,000 (1 January 2019: nil) arising from leases with CCT Shenzhen.

	31 December 2019 RMB'000
Amounts payable under lease liabilities	
Within one year	11,490
After one year but within two years	9,616
After two years but within five years	3,681
	24,787
Less: amount due for settlement within 12 months (shown under current liabilities)	(11,490)
Amount due for settlement after 12 months	13,297

(c) Amounts recognised in profit or loss

	Year ended 31 December 2019 RMB'000
Depreciation expense on right-of-use assets	9,789
Interest expense on lease liabilities	953
Expense relating to short-term leases	7,722

(d) Others

During the year ended 31 December 2019, the total cash outflows for leases amounting to approximately RMB18,223,000.

19. INTANGIBLE ASSETS

	Internet platform RMB'000	Customer relationships RMB'000	Domain name and trademark RMB'000	Supplier relationships RMB'000	Non-compete agreements RMB'000	Information systems RMB'000	License RMB'000	Total RMB'000
COST								
At 1 January 2018	2,778	34,855	2,223	–	–	–	–	39,856
Acquired on acquisition of subsidiaries (notes 39(b) and 40(a))	–	11,918	–	397,729	55,342	101,180	–	566,169
Disposal of subsidiaries	–	–	–	(114,547)	–	–	–	(114,547)
Exchange adjustments	158	2,149	(37)	–	–	–	–	2,270
At 31 December 2018 and 1 January 2019	2,936	48,922	2,186	283,182	55,342	101,180	–	493,748
Addition	–	–	–	–	–	516,722	–	516,722
Acquired on acquisition of subsidiaries (notes 39(a))	–	–	–	–	–	–	204,508	204,508
Exchange adjustments	37	518	28	–	–	–	–	583
At 31 December 2019	2,973	49,440	2,214	283,182	55,342	617,902	204,508	1,215,561
ACCUMULATED AMORTISATION								
At 1 January 2018	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 and 1 January 2019	2,936	37,079	1,177	966	158	186	–	42,502
Charge for the year	–	1,986	201	31,465	6,149	42,648	6,065	88,514
Exchange adjustments	37	464	14	–	–	–	–	515
At 31 December 2019	2,973	39,529	1,392	32,431	6,307	42,834	6,065	131,531
CARRYING VALUES								
At 31 December 2019	–	9,911	822	250,751	49,035	575,068	198,443	1,084,030
At 31 December 2018	–	11,843	1,009	282,216	55,184	100,994	–	451,246

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
Licence	5 years

19. INTANGIBLE ASSETS (Continued)

Additions to information systems during the year ended 31 December 2019 represented the carrying amount of the information systems used in the automotive business included into Ingdan Services segment. The information systems entitled the Group to generate products sales under the automotive business for 5 years from the date of acquisition. The amount will therefore be amortised over the useful lives of 5 years on a straight-line basis.

The customer relationships, supplier relationships, non-compete agreements, information systems and licenses with carrying amounts of approximately RMB9,911,000 (2018: RMB11,843,000), RMB250,751,000 (2018: RMB282,216,000), RMB49,035,000 (2018: RMB55,184,000), RMB80,944,000 (2018: RMB100,994,000) and RMB198,443,000 (2018: nil) arised from business combinations in current and priors years, respectively. Details of the impairment assessment are disclosed in note 20.

20. GOODWILL

	RMB'000
COST	
At 1 January 2018	170,857
Arising an acquisition of subsidiaries (note 39(b))	270,818
Exchange adjustments	9,817
At 31 December 2018 and 1 January 2019	451,492
Arising on acquisition of subsidiaries (note 39(a))	975
Exchange adjustments	—
At 31 December 2019	452,467
ACCUMULATED IMPAIRMENT LOSS	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	—
CARRYING VALUES	
At 31 December 2019	452,467
At 31 December 2018	451,492

20. GOODWILL (Continued)

For the purpose of impairment testing, goodwill and intangible assets arising from the business combinations was allocated to five (2018: four) individual cash-generating units of the Group, which is included in the Group's sales of IC and other electronic components business and Ingdan services business. The carrying amounts of goodwill and intangible assets as at 31 December 2019 and 2018 allocated to these units are as follows:

	Goodwill	
	2019 RMB'000	2018 RMB'000
Sales of IC and other electronic components	**180,674**	180,674
Ingdan Services		
— Heicolink Holdings Limited and its subsidiaries ("Heicolink Group")	**121,509**	121,509
— New United Holdings Limited and its subsidiaries ("New United Group")	**105,546**	105,546
— Risingnovas Holdings Limited and its subsidiary ("Risingnovas Group")	**43,763**	43,763
— BCT Group	**975**	—
	452,467	451,492

	2019					
	Customer relationships RMB'000	Supplier relationships RMB'000	Non-compete agreements RMB'000	Information systems RMB'000	Licenses RMB'000	Total RMB'000
Ingdan Services						
— Heicolink Group	4,919	93,774	22,716	27,699	—	149,108
— New United Group	1,944	132,085	20,728	34,070	—	188,827
— Risingnovas Group	3,048	24,892	5,591	19,175	—	52,706
— BCT Group	—	—	—	—	198,443	198,443
	9,911	250,751	49,035	80,944	198,443	589,084

20. GOODWILL (Continued)

	2018				
	Customer relationships RMB'000	Supplier relationships RMB'000	Non-compete agreements RMB'000	Information systems RMB'000	Total RMB'000
Ingdan Services					
— Heicolink Group	5,850	105,541	25,565	34,556	171,512
— New United Group	2,334	148,659	23,327	42,510	216,830
— Risingnovas Group	3,659	28,016	6,292	23,928	61,895
	11,843	282,216	55,184	100,994	450,237

The value-in-use calculation, which was determined as the recoverable amount of each cash-generating unit containing goodwill and intangible assets, as at 31 December 2019 and 2018 have been arrived by Royson Valuation Advisory Limited, an independent qualified professional valuer not connected with the Group, who holds a recognised relevant professional qualification on valuation. The valuation techniques and their major underlying assumptions used in the value-in-use calculations are summarised below:

Cash-generating unit — Sales of IC and other electronic components

The recoverable amount of this cash-generating unit has been determined based on value-in-use calculation, which uses cash flow projections based on financial budgets approved by management of the Group covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated weighted average growth rate of 3% (2018: 3%) for the cash-generating unit.

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 cash-generating unit operates. The cash flows are discounted using pre-tax discount rate of 18% (2018: 17.5%). Key assumptions used for the value-in-use calculation 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 cash-generating unit based on the value-in-use calculation is higher than its carrying amount as at 31 December 2019 and 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 (2018: nil).

20. GOODWILL (Continued)

Cash-generating unit — Ingdan services (the Risingnovas Group)

The recoverable amount of this cash-generating unit 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% (2018: 3%) for the cash-generating unit.

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 cash-generating unit operates. The cash flows are discounted using pre-tax discount rate of 17.1% (2018: 16.5%). Key assumptions used for the value-in-use calculation 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 cash-generating unit based on the value-in-use calculation is higher than its carrying amount as at 31 December 2019 and 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 (2018: nil).

Cash-generating unit — Ingdan services (the Heicolink Group)

The recoverable amount of this cash-generating unit 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% (2018: 3%) for the cash-generating unit.

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 cash-generating unit operates. The cash flows are discounted using pre-tax discount rate of 17.7% (2018: 17.1%). Key assumptions used for the value-in-use calculation 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 cash-generating unit based on the value-in-use calculation is higher than its carrying amount as at 31 December 2019 and 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. GOODWILL (Continued)

Cash-generating unit — Ingdan services (the New United Group)

The recoverable amount of this cash-generating unit 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% (2018: 3%) for the cash-generating unit.

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 cash-generating unit operates. The cash flows are discounted using pre-tax discount rate of 16.9% (2018: 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 cash-generating unit based on the value-in-use calculation is higher than its carrying amount as at 31 December 2019 and 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 (2018: nil).

Cash-generating unit — Ingdan services (the BCT Group)

The recoverable amount of this cash-generating unit 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% for the cash-generating unit.

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 cash-generating unit operates. The cash flows are discounted using pre-tax discount rate of 14.7%. 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 cash-generating unit based on the value-in-use calculation is higher than its carrying amount as at 31 December 2019. The Group performs 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.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at FVTOCI comprise:

	2019 RMB'000	2018 RMB'000
Equity investments designated as at FVTOCI:		
— Unlisted	**360,532**	7,700
Analysed for reporting purposes as:		
— Non-current assets	**360,532**	7,700

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 BVI or established in the PRC.

During the year ended 31 December 2019, the Group, through capital contributions, acquired of (i) 40% equity interest in Locoway Technology Holdings Limited ("Locoway") and its subsidiary (collectively referred to as the "Locoway Group") at a cash consideration of HK$200,000,000, equivalent to approximately RMB175,409,000; and (ii) 35% equity interest in Aliothtech Holdings Limited ("Aliothtech") and its subsidiary (collectively referred to as the "Aliothtech Group") at a cash consideration of HK$193,000,000, equivalent to approximately RMB169,270,000. Both Locoway and Aliothtech are private companies incorporated in the BVI. The Locoway Group is principally engaged into the sales, research and development for Advanced Driving Assistance Systems and Driver Monitoring Systems for the automobile industry while the Aliothtech Group is principally engaged into the sales of AIoT products and other custom chip design.

The Group did not have any right to appoint any directors in the board of directors of Locoway and Aliothtech. In the opinion of the directors of the Company, 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.

22. INTERESTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Cost of investments in associates — unlisted	**153,571**	151,232
Share of post-acquisition profit and other comprehensive income, net of dividends received	**32,079**	11,555
	185,650	162,787

At 31 December 2019 and 2018, the Group had interests in the following associates:

Name of entities	Form of business	Principal place of operation and incorporation/ establishment	Class of shares held	Proportion of ownership interest or participating shares held by the Group 2019	Proportion of ownership interest or participating shares held by the Group 2018	Proportion of voting power held by the Group 2019	Proportion of voting power held by the Group 2018	Principal activities
Zim HK	Incorporated	Hong Kong	Ordinary shares	**15% (note)**	15% (note)	**15% (note)**	15% (note)	Trading of IC and other electronic components
EZ Robot	Incorporated	BVI	Ordinary shares	**49%**	49%	**49%**	49%	Investment holding
Comtech Industrial (Hong Kong) Limited ("CIHK")	Incorporated	Hong Kong	Ordinary shares	**49%**	49%	**49%**	49%	Trading of AIoT products
Shanghai Comtech	Established	The PRC	Contributed capital	**49%**	49%	**49%**	49%	Trading of AIoT products
Shanghai E&T Auto	Established	The PRC	Contributed capital	**49%**	49%	**49%**	49%	Trading of AIoT products
IngDan Japan Corporation	Incorporated	Japan	Ordinary shares	**40%**	40%	**40%**	40%	Dormant

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

22. INTERESTS IN ASSOCIATES (Continued)

The summarised financial information in respect of the associates, namely ZIM HK and EZ Robot and its subsidiaries (together with CIHK, Shanghai Comtech and Shanghai E&T Auto, collectively referred to as the "EZ Robot Group"), which 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

	2019 RMB'000	2018 RMB'000
Current assets	**541,477**	456,664
Non-current assets	**87**	116
Current liabilities	**(437,417)**	(363,987)
Revenue	**1,658,843**	1,622,411
Profit and total comprehensive income for the year	**14,667**	10,852
Dividends received from Zim HK during the year	**(497)**	(760)

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

	2019 RMB'000	2018 RMB'000
Net assets of Zim HK	**104,147**	92,793
Proportion of the Group's ownership interest in Zim HK	**15%**	15%
Group's share of net assets of the associate	**15,622**	13,919
Goodwill	**6,297**	5,408
Carrying amount of the Group's interest in Zim HK	**21,919**	19,327

22. INTERESTS IN ASSOCIATES (Continued)

The EZ Robot Group

	2019 RMB'000	2018 RMB'000
Current assets	**518,840**	914,207
Non-current assets	**178,951**	127,153
Current liabilities	**(535,308)**	(918,211)

	Year ended 31 December 2019 RMB'000	Period from the date of transfer 25 June 2018 (note 42(b)) to 31 December 2018 RMB'000
Revenue	**1,404,359**	1,655,406
Profit and total comprehensive income for the year	**60,012**	12,376
Dividends received from the EZ Robot Group during the year	**(10,132)**	—

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

	2019 RMB'000	2018 RMB'000
Net assets of the EZ Robot Group	**162,483**	123,149
Proportion of the Group's ownership interest in the EZ Robot Group	**49%**	49%
Group's share of net assets of associates	**79,617**	60,343
Goodwill	**82,578**	81,128
Carrying amount of the Group's interest in the EZ Robot Group	**162,195**	141,471

22. INTERESTS IN ASSOCIATES (Continued)

The EZ Robot Group (Continued)

The financial information and carrying amount, of the Group's interest in an associate that are not individually material and are accounted for using the equity method are set out below:

	2019 RMB'000	2018 RMB'000
Group's share of loss and other comprehensive expense for the year	**(453)**	(386)
Carrying amount of the Group's interest in an immaterial associate	**1,536**	1,989

23. INTEREST IN A JOINT VENTURE

	2019 RMB'000	2018 RMB'000
Cost of investment in a joint venture — unlisted	**1,000**	1,000
Share of post-acquisition losses	**(1,000)**	(1,000)
	—	—

23. INTEREST IN A JOINT VENTURE (Continued)

At 31 December 2019 and 2018, the Group had interest in the following joint venture:

Name of entities	Form of business	Principal place of operation and establishment	Class of shares held	Proportion of ownership interest or participating shares held by the Group		Proportion of voting power held by the Group		Principal activities
				2019	2018	2019	2018	
ZZJ Intelligent Technology (Shanghai) Limited* 蜘蛛家智能科技(上海)有限公司 ("ZZJ Shanghai")	Established	The PRC	Contributed capital	50%	50%	50%	50%	Provision of Information Technology integration services

In March 2019, the Group, through capital contribution, acquired of 50% equity interest in Ingdan Lindeman Korea Co., Ltd. ("Ingdan Korea") at a cash consideration of Korean Won ("KRW") 50,000,000, equivalent to approximately RMB292,000. The above-mentioned investment has been classified as a joint venture of the Company at the date of the acquisition.

In December 2019, the Group disposed of entire 50% equity interest in Ingdan Korea at a cash consideration of KRW46,140,000, equivalent to approximately RMB269,000. As a result, loss on disposal of a joint venture of approximately RMB23,000 has been recognised during the year ended 31 December 2019.

	2019 RMB'000	2018 RMB'000
Unrecognised share of loss of joint venture for the year	(6)	(26)
Accumulated unrecognised share of loss of joint venture	(32)	(26)

* The English name is for identification purpose only

24. INVENTORIES

	2019 RMB'000	2018 RMB'000
Merchandises	**319,974**	860,361

As at 31 December 2019, the carrying amounts of the Group's inventories were net of allowance for inventories of approximately RMB45,242,000 (2018: RMB26,742,000).

During the year ended 31 December 2019, allowance for inventories of approximately RMB18,500,000 (2018: RMB22,613,000) has been recognised and included in cost of sales.

During the year ended 31 December 2018, reversal of allowance for inventories of approximately RMB53,438,000 (2019: nil) has been recognised and included in cost of sales as a result of the subsequent sales.

25. TRADE, BILLS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Receivables at amortised cost comprise:		
— Trade receivables	**1,311,719**	1,393,953
— Bills receivables	**10,935**	48,923
Trade and bills receivables	**1,322,654**	1,442,876
Less: loss allowance on trade receivables	**(77,911)**	(147,159)
	1,244,743	1,295,717
Loan interest receivables (note (c))	**45,190**	15,195
Trade deposits and prepayments (note (a))	**240,357**	60,416
Other prepayments	**22,943**	15,526
Other receivables (note (b))	**14,255**	21,252
	1,567,488	1,408,106
Less: loss allowance on other receivables	**—**	(6,166)
	1,567,488	1,401,940

As at 31 December 2019, the gross amount of trade receivables arising from contracts with customers amounted to approximately RMB1,311,719,000 (2018: RMB1,442,876,000).

25. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

The Group allows credit period ranging from 30 to 90 days (2018: 30 to 90 days) from the date of billing. The following is an ageing analysis of trade receivables net of allowance for impairment of trade receivables presented based on the dates of delivery of goods or rendering services, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2019 RMB'000	2018 RMB'000
Within 1 month	**502,709**	550,838
1 to 2 months	**261,250**	272,136
2 to 3 months	**233,717**	243,456
Over 3 months	**247,067**	229,287
	1,244,743	1,295,717

The Group measures the loss allowance on trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated on an individual basis for customers with significant balances and/or collectively 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.

There has been no change in the estimation techniques or significant assumptions made during the years ended 31 December 2019 and 2018.

The Group recognised lifetime ECL for trade receivables based on past due ageing analysis of customers collectively using the provision matrix as follows:

As at 31 December 2019

	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Individual basis for customers with significant balances			
Credit impaired receivables — Default	**100%**	**8,726**	**8,726**
Not credit-impaired receivables — Doubtful	**75%**	**30,915**	**23,186**
Collectively using a provision matrix			
Other trade receivables aged:			
— Not yet due	**0.0%**	**926,303**	**—**
— Past due 1–60 days	**12.2%**	**338,738**	**41,326**
— Past due over 60 days	**66.4%**	**7,037**	**4,673**
		1,311,719	**77,911**

25. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

As at 31 December 2018

	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Individual basis for customers with significant balances			
Credit impaired receivables — Default	100%	86,771	86,771
Not credit-impaired receivables — Doubtful	75%	22,470	16,853
Collectively using a provision matrix			
Other trade receivables aged:			
— Not yet due	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 loss allowance on trade receivables is set out below:

	Lifetime ECL — not credit impaired RMB'000	Lifetime ECL — credit impaired RMB'000	Total RMB'000
At 1 January 2018	111,883	—	111,883
Increase (decrease) during the year	(51,495)	86,771	35,276
At 31 December 2018 and 1 January 2019	60,388	86,771	147,159
Increase during the year	8,797	8,726	17,523
Amounts write-off as uncollectible	—	(86,771)	(86,771)
At 31 December 2019	69,185	8,726	77,911

The Group writes off trade receivables 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 debtor has been placed under liquidation or has entered into bankruptcy proceedings.

25. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

Notes:

(a) As at 31 December 2019, included in the trade deposits and prepayments are approximately RMB162,727,000 of prepayments made in advance to an independent supplier of the Group (2018: RMB28,712,000).

(b) The Group measures the loss allowance on 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:

As at 31 December 2019

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Performing	**0%**	**14,255**	**–**

As at 31 December 2018

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Performing	0%	15,086	–
Default	100%	6,166	6,166
		21,252	6,166

The movement in the loss allowance on other receivables is set out below:

	Lifetime ECL – credit impaired RMB'000
At 1 January 2018	–
Increase during the year	6,166
At 31 December 2018 and 1 January 2019	6,166
Amounts write-off as uncollectible	(6,166)
At 31 December 2019	–

The Group writes off other receivables 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 debtor has been placed under liquidation or has entered into bankruptcy proceedings.

25. TRADE, BILLS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) The breakdown of the loan interest receivables at the end of the reporting period is presented as follows:

	2019 RMB'000	2018 RMB'000
Associates of the Group	**5,771**	11,405
Investees of the Group, classified as financial assets at FVTOCI	**11,930**	—
Others	**27,489**	3,790
At the end of the year	**45,190**	15,195

26. LOANS RECEIVABLES

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**542,182**	942,558
Addition	**817,855**	1,255,530
Repayment from borrowers	**(551,595)**	(1,691,152)
Exchange adjustments	**10,501**	35,246
At the end of the year	**818,943**	542,182
Analysed for reporting purpose:		
— Current portion	**663,096**	542,182
— Non-current portion	**155,847**	—
	818,943	542,182

The loans receivables are all secured by the borrowers' cash deposits, inventories or trade receivables and carried fixed interest rates as at 31 December 2019 and 2018.

26. LOANS RECEIVABLES (Continued)

The loans receivables, presented based on the identity of the borrower, are as follows:

	2019 RMB'000	2018 RMB'000
Associates of the Group	**109,044**	221,599
Investees of the Group, classified as financial assets at FVTOCI	**309,436**	—
Others	**400,463**	320,583
	818,943	542,182

The interest rate of the loans granted to the associates and investees of the Group are determined at rates to others with similar amount and credit rating.

During the year ended 31 December 2019, in determining the 12-month ECL for the loans receivables, the directors of the Company have taken into account the historical default experience, the financial position of the counterparties, value of collaterals as well as the future prospects of the industries in which the debtors operate, various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets individually 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 both years.

As at 31 December 2019 and 2018, the directors of the Company estimate the ECL on loans receivables was insignificant.

The following is an ageing analysis of loans receivables, presented based on their contractual maturity dates:

	2019 RMB'000	2018 RMB'000
Within 3 months	**—**	—
3 to 6 months	**396,830**	41,158
6 months to 1 year	**266,266**	501,024
Over 1 year	**155,847**	—
	818,943	542,182

26. LOANS RECEIVABLES (Continued)

The following is an ageing analysis of loan receivables, presented based on the drawdown dates which loans:

	2019 RMB'000	2018 RMB'000
Within 3 months	**155,847**	14,588
3 to 6 months	**77,289**	290,961
6 months to 1 year	**324,485**	191,564
Over 1 year	**261,322**	45,069
	818,943	542,182

During the year ended 31 December 2019, loan receivables with carrying amount of approximately RMB247,399,000 (2018: RMB31,331,000) have been renewed for another one year.

Loans receivables carried effective interest at fixed rates ranging from 6% to 7% per annum (2018: 6% to 12% per annum).

27. AMOUNTS DUE FROM ASSOCIATES

The amounts are repayable on demand and non-interest bearing and secured by the trade receivables and inventories held by the associates.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Structured deposits managed by the bank in the PRC	–	191,830

The structured deposits managed by the bank in the PRC with underlying financial instruments mainly consist of the bank deposits and funds of the PRC.

During the year ended 31 December 2019, the Group disposed of the above-mentioned structured deposits at a cash consideration of approximately RMB195,604,000, resulting a gain on disposal of financial assets at FVTPL of approximately RMB3,774,000.

The structured deposits carried floating interest rate at 2.9% per annum as at 31 December 2018.

29. SHORT-TERM BANK DEPOSITS, PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

Short-term bank deposits

Short-term bank deposits carried interest at a fixed interest rate of 3% (2018: 3%) per annum during the year ended 31 December 2019.

Pledged bank deposits

Pledged bank deposits represented deposits pledged to the bank to secure banking loans granted to the Group. As at 31 December 2019 and 2018, all bank deposits have been pledged by the Group to secure bank loans classified under current liabilities (note 32) and was therefore classified as current assets. The pledged bank deposits carried interest at a fixed interest rate of 2.1% (2018: 2.2%) per annum during the year ended 31 December 2019.

Bank balances and cash

Bank balances carried interest at prevailing market interest rate as at 31 December 2019 and 2018.

30. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**794,576**	524,722
Accrued staff costs	**16,119**	12,064
Other payables	**43,621**	25,824
	854,316	562,610

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

	2019 RMB'000	2018 RMB'000
Within 1 month	**395,550**	283,703
1 to 3 months	**240,305**	133,464
Over 3 months	**158,721**	107,555
	794,576	524,722

30. TRADE AND OTHER PAYABLES (Continued)

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

31. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Sales of IC and other electronic components	**3,978**	2,292

Contract liabilities represents advances received for the sales of 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 2019 that was included in the contract liabilities as at 1 January 2019 is approximately RMB2,292,000 (2018: RMB3,591,000). There was no revenue recognised during the year ended 31 December 2019 that related to performance obligations that were satisfied prior to 1 January 2019.

32. BANK LOANS

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

	2019 RMB'000	2018 RMB'000 (Restated)
Within one year	**180,676**	162,507
After one year but within two years	**–**	963,353
	180,676	1,125,860
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
Carrying amount repayable within one year	**180,676**	162,507
Amount shown under current liabilities	**180,676**	1,125,860

32. BANK LOANS (Continued)

(a) As at 31 December 2019, including in bank loans was a bank loan with carrying amount of approximately RMB10,000,000 (2018: nil) carrying at fixed interest rate of 4.57% (2018: nil). The remaining bank loans carried interest rate of LIBOR plus 1.4% (2018: LIBOR plus 1.4% to 2.4%) with an effective interest at floating rate of 2.93% per annum (2018: 3.92% to 4.02% per annum).

(b) At 31 December 2019, all banking facilities were secured by the Group's pledged bank deposits of approximately RMB159,858,000 (2018: RMB306,947,000).

(c) The amount of banking facilities and the utilisation at the end of the reporting period are set out as follows:

	2019 RMB'000	2018 RMB'000
Facility amount		
— expiring within one year	**180,676**	162,507
— expiring beyond one year	**—**	963,353
Total	**180,676**	1,125,860
Utilisations		
— expiring within one year	**180,676**	162,507
— expiring beyond one year	**—**	963,353
	180,676	1,125,860
Unused banking facilities	**—**	—

33. 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 2018	570
Acquisition of subsidiaries (note 39(b))	57,823
Credited to profit or loss	(252)
Exchange adjustments	316
At 31 December 2018 and 1 January 2019	58,457
Credited to profit or loss (note 11)	(7,833)
Exchange adjustments	985
At 31 December 2019	51,609

As at 31 December 2019, no deferred tax asset has been recognised in respect of estimated unused tax losses of approximately RMB197,456,000 (2018: RMB207,709,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB250,000 (2018: RMB18,907,000) that will be expired within next five years. Other estimated unused tax losses may be carried forward indefinitely.

As at 31 December 2019, the aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognised from 1 January 2008 onwards were approximately RMB1,559,237,000 (2018: RMB1,617,404,000). Deferred tax liabilities of RMB77,962,000 (2018: RMB80,870,000) 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.

34. SHARE CAPITAL

	Number of shares	Amount in original currency US$	Shown in the consolidated financial statements RMB'000
Ordinary shares of US$0.0000001 each			
Authorised:			
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	500,000,000,000	50,000	N/A
Issued and fully paid:			
At 1 January 2018	1,471,276,732	147	1
Issue of new shares (note (i))	10,200,000	1	—
Cancellation of repurchased shares (note (ii))	(4,336,000)	—	—
At 31 December 2018 and 1 January 2019	1,477,140,732	148	1
Issue of new shares (note (iv))	14,000,000	1	—
Cancellation of repurchased shares (note (v))	(63,808,000)	(6)	—
At 31 December 2019	1,427,332,732	143	1

Notes:

(i) 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.

(ii) During the year ended 31 December 2018, the Company repurchased its own shares through the Stock Exchange as follows:

Month	Number of ordinary shares of US$0.0000001 each	Price per share Lowest HK$	Price per share Highest HK$	Aggregate amount paid HK$'000
March 2018	731,000	3.99	4.05	2,928
April 2018	1,265,000	3.64	4.03	4,959
July 2018	2,340,000	2.97	3.19	7,182
December 2018	231,000	2.52	2.63	599
	4,567,000			15,668

34. SHARE CAPITAL (Continued)

Notes: (Continued)

(ii) (Continued)

Of the 4,567,000 shares repurchased, 4,336,000 shares were cancelled during the year ended 31 December 2018, and the remaining 231,000 shares were cancelled during the year ended 31 December 2019. The issued share capital of the Company was reduced by the nominal value of US$0.43 during the year ended 31 December 2018. 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 RMB13,755,000, was charged to share premium.

(iii) During the year ended 31 December 2018, the Company repurchased its own shares through the Stock Exchange for the RSU scheme as follows:

Month	Number of ordinary shares of US$0.0000001 each	Price per share Lowest HK$	Price per share Highest HK$	Aggregate amount paid HK$'000
September 2018	3,700,000	2.63	2.94	10,215
October 2018	4,700,000	2.54	2.98	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 38). 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.

(iv) On 3 September 2019, an additional 14,000,000 new shares of HK$1.41 (equivalent to RMB1.24) 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 2019, the Company repurchased its own shares through the Stock Exchange as follows:

Month	Number of ordinary shares of US$0.0000001 each	Price per share Lowest HK$	Price per share Highest HK$	Aggregate amount paid HK$'000
March 2019	451,000	2.86	2.91	1,300
April 2019	20,984,000	2.75	3.09	62,670
May 2019	5,778,000	2.30	2.72	14,413
June 2019	977,000	2.04	2.11	2,027
July 2019	24,229,000	2.14	2.24	53,089
September 2019	11,158,000	1.37	1.48	15,900
	63,577,000			149,399

34. SHARE CAPITAL (Continued)

Notes: (Continued)

(v) (Continued)

All of the above shares together with 231,000 shares which were repurchased during the year ended 31 December 2018 were cancelled during the year ended 31 December 2019. The issued share capital of the Company was reduced by the nominal value of US$6.38. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, the nominal value of the shares cancelled of US$6.38 (equivalent to RMB43.9) was transferred from the share capital to the share premium. The premium paid on the repurchase of the shares of HK$149,399,000, equivalent to approximately RMB131,723,000, was charged to share premium.

(vi) No share was repurchased for the RSU Scheme during the year ended 31 December 2019.

(vii) For the year ended 31 December 2019, 6,176,674 units of RSUs (2018: 4,105,000) were vested to the beneficiaries, and approximately RMB26,118,000 (2018: RMB26,131,000) 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 38).

35. OPERATING LEASE COMMITMENT

The Group as lessee

Operating lease payments represent rentals payable by the Group for its office premises and warehouses. Leases for the year ended 31 December 2018 are negotiated for terms of one to three years and rentals are fixed for an average of two years.

At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000
Within one year	10,416
In the second to fifth years inclusive	14,628
	25,044

36. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties during the year as follows:

Related party	Nature of transaction	2019 RMB'000	2018 RMB'000
Zim HK	Interest income received (note (i))	**7,501**	19,186
CIHK	Interest income received (note (ii))	**2,427**	805
	Sales of IC and other electronic components (note (iv))	**137,498**	34,499
	Marketplace income (note (iv))	**14,440**	15,707
	Purchase of IC and other electronic components (note (iv))	**259,917**	301,910
Shanghai Comtech	Sales of IC and other electronic components (note (iv))	**22,250**	1,564
Shanghai E&T Auto	Interest income received (note (iii))	**1,909**	955
	Sales of IC and other electronic components (note (iv))	**9**	—
Comtech Small Loan Company Limited* 深圳市科通小額貸款有限責任公司 ("Comtech Small Loan")	Agency services, administrative and consultancy services fee income received (note (v))	**7,745**	11,727
CCT Shenzhen	Additions to right-of-use assets (note (vi))	**2,570**	—
	Interest on lease liabilities paid (note (vi))	**95**	—
	Rental expenses paid (note (vii))	**3,621**	2,383

* The English name is for identification purpose only

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes:

(i) Interest income received from Zim HK

During the year ended 31 December 2019, the Group has provided loans with aggregate principal amount of US$6,000,000 (equivalent to approximately RMB41,283,000) (2018: US$65,053,000, equivalent to approximately RMB429,938,000) to Zim HK, at an interest rate of 9% (2018: 9% to 9.72%) per annum for the purpose of supply chain financing.

(ii) Interest income received from CIHK

During the year ended 31 December 2019, the Group has provided loans with aggregate principal amount of US$27,743,000 (equivalent to approximately RMB190,886,000) (2018: US$5,815,000, equivalent to approximately RMB38,432,000) to CIHK, at an interest rate of 6% (2018: 6%) per annum for the purpose of supply chain financing.

(iii) Interest income received from Shanghai E&T Auto

During the year ended 31 December 2018, the Group had provided loans with aggregate principal amount of US$4,561,000 (equivalent to approximately RMB30,144,000) to Shanghai E&T Auto at an interest rate of 6% per annum for the purpose of supply chain financing.

No such loan has been provided during the year ended 31 December 2019.

(iv) Sales and purchase of IC and other electronic components and marketplace income with CIHK, Shanghai Comtech and Shanghai E&T Auto

The sales and purchase of IC and other electronic components and marketplace income were conducted at market terms with other customers and suppliers.

(v) Agency services, administrative and consultancy services fee income received from Comtech Small Loan (included in revenue)

On 11 December 2015, the Group entered into a series of agreements, including Purchase Option Agreement, Agency Agreement and Service Agreement, with CCT Shenzhen and Comtech Small Loan, a subsidiary of CCT Shenzhen. CCT Shenzhen is a limited liability company established on 23 July 2002 in the PRC and owned by Mr. Kang. Comtech Small Loan is a limited liability company established on 22 November 2015 and holds a small loan license in the PRC 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 at a cash consideration of RMB300,000,000, or part of the equity interest in Comtech Small Loan at 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.

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(v) Agency services, administrative and consultancy services fee income received from Comtech Small Loan (included in revenue) (Continued)

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 non-interest bearing and does not constitute an exercise of the option by the Purchaser. During the years ended 31 December 2019 and 2018, 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.

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 2019, borrowings with principal amount of approximately RMB9,456,000 (2018: RMB12,315,000) 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 2019 amounted to approximately RMB7,565,000 (2018: RMB9,852,000) 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 2019 amounted to approximately RMB180,000 (2018: RMB1,875,000) 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 report of the directors of the Company.

(vi) Leases with CCT Shenzhen

During the year ended 31 December 2019, the Group entered into leases in respect of certain properties with CCT Shenzhen for leases ranging from 2–3 years. The aggregate amount of effective rent payable by the Group under the lease is approximately RMB76,000 per month. At the commencement date of the leases, the Group recognised right-of-use assets and corresponding lease liabilities of approximately RMB2,570,000. As at 31 December 2019, the aggregate carrying amounts of the right-of-use assets and lease liabilities were approximately RMB1,942,000 and RMB1,974,000 respectively.

(vii) Rental expenses paid to CCT Shenzhen

During the year ended 31 December 2019, the Group has made the lease payments of approximately RMB3,621,000 to CCT Shenzhen, where the leases are accounted for as a short-term lease at the initial application of HKFRS 16 *Leases* at 1 January 2019.

The rental expenses during the year ended 31 December 2018 represented the operating lease charges in respect of the leased premises rented from CCT Shenzhen.

36. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

Save as disclosed elsewhere in the consolidated financial statements, the Company has no other material balances with related parties.

(c) 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:

	2019 RMB'000	2018 RMB'000
Short-term benefits	**6,324**	10,816
Post-employment benefits	**168**	164
Equity-settled share-based compensation expenses	**3,382**	2,801
	9,874	13,781

The remuneration of directors of the Company and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

37. RETIREMENT BENEFIT SCHEME

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK$1,500 per month, to the MPF Scheme, in which the contribution is matched by employees.

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2019, the total expense charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB18,580,000 (2018: RMB21,961,000) represents contributions payable to these schemes by the Group in respect of the current year.

38. SHARE-BASED PAYMENT TRANSACTIONS

RSU scheme of the Company

On 1 March 2014, the Company's shareholders and directors adopted the RSU Scheme and granted 30,200,000 RSUs to directors and employees of the Group. The purpose of the RSU Scheme is to reward the fidelity and performance of the directors and employees of the Group. 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 2.2% 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 Group 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 Group 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 Group 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 3 September 2019, the Company granted an additional 14,000,000 RSUs to employees of the Group under the RSU Scheme. Shares repurchased by the Company on the Stock Exchange were held by the RSU Scheme trustee for the purpose of the RSU Scheme.

Equity-settled share-based compensation expenses of approximately RMB25,443,000 were recognised as staff costs in profit or loss for the year ended 31 December 2019 (2018: RMB21,496,000) and the remaining balance is to be recognised in 2020 and 2021 based on the respective vesting periods.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

RSU scheme of the Company (Continued)

(a) Details of the terms and conditions of the grant of RSUs are as follows:

	Number of RSUs	Fair value as at grant date: Per share RMB	Fair value as at grant date: Aggregate amount RMB'000	Vesting conditions
RSUs granted to directors:				
— on 1 March 2014	3,600,000	1.72	6,192	Notes (i), (iii)
RSUs granted to employees:				
— on 1 March 2014	19,346,300	1.72	33,276	Notes (i), (iii)
— on 1 March 2014	7,253,700	1.72	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)
— on 3 September 2019	14,000,000	1.24	17,360	Notes (x), (xi)
Total RSUs granted	78,340,000			

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.

(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.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

RSU scheme of the Company (Continued)

(a) Details of the terms and conditions of the grant of RSUs are as follows: (Continued)

Notes: (Continued)

(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.

(x) The RSUs granted have a vesting period of three years as follows:

- One-third of which will vest for the 12 months ended 2 September 2020 in equal quarterly installments.
- One-third of which will vest for the 12 months ended 2 September 2021 in equal quarterly installments.
- One-third of which will vest for the 12 months ended 2 September 2022 in equal quarterly installments.

(xi) Employees who leave the Group before 2 September 2022 forfeit their right to any unvested RSUs.

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

RSU scheme of the Company (Continued)

(b) The movement of the grant of RSUs during the year are as follows:

	Number of RSUs	
	2019	2018
Outstanding as at 1 January	**12,400,000**	6,945,000
Granted during the year	**14,000,000**	10,200,000
Vested during the year	**(6,176,674)**	(4,105,000)
Forfeited during the year	**(1,350,000)**	(640,000)
Outstanding as at 31 December	**18,873,326**	12,400,000

(c) Fair value of RSUs and assumptions

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

Fair value of RSUs and assumptions	
Discount rate	17.5%
Risk-free interest rate	3.265%
Volatility	16.0%
Dividend yield	0.0%

The fair value of RSUs granted on 8 July 2015, 1 February 2017, 23 November 2018 and 3 September 2019 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, HK$2.89 per share and HK$1.41 per share, respectively.

39. ACQUISITION OF SUBSIDIARIES

(a) For the year ended 31 December 2019

During the year ended 31 December 2019, the Group acquired 53% equity interests in the BCT Group through capital contribution with an aggregate amount of approximately RMB2,265,000. Such acquisition was accounted for as a business combination using the acquisition accounting. The principal activities of the BCT Group are the distribution and sales of power module and transformer for motor vehicles. The BCT Group was acquired as to continue the expansion of the Group's Ingdan Incubator business.

39. ACQUISITION OF SUBSIDIARIES (Continued)

(a) For the year ended 31 December 2019 (Continued)

Acquisition-related costs amounting to approximately RMB88,000 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
Plant and equipment	844
Intangible assets	204,508
Inventories	28,080
Trade and other receivables	58,302
Cash and cash equivalents	4,096
Trade and other payables	(75,020)
Amount due to a subsidiary of the Company	(211,560)
Income tax payable	(1,089)
Bank loan	(10,000)
	(1,839)

The fair value of trade and other receivables at the date of acquisition amounted to approximately RMB58,302,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately RMB58,302,000 at the date of acquisition.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	—
Plus: non-controlling interests (47% in the BCT Group)	(864)
Less: net identifiable liabilities assumed	1,839
Goodwill arising on acquisition	975

Goodwill arose in the acquisition of the BCT 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 the BCT Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

39. ACQUISITION OF SUBSIDIARIES (Continued)

(a) For the year ended 31 December 2019 (Continued)

Net cash inflows on acquisition of the BCT Group:

	RMB'000
Cash and cash equivalent acquired	4,096

Included in the profit for the year is a loss of approximately RMB2,018,000 attributable to the additional business generated by the BCT Group. Revenue for the year includes approximately RMB85,825,000 generated from the BCT Group.

Had the acquisitions of the BCT Group been completed on 1 January 2019, total revenue of the Group for the year would have been increased by approximately RMB186,936,000, and profit for the year would have decreased by approximately RMB2,491,000. 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 2019, nor is it intended to be a projection of future results.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

(b) For the year ended 31 December 2018

Risingnovas Group

On 19 December 2018, the Group acquired entire equity interest in the Risingnovas Group for a cash 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 the Risingnovas Group are the distribution and sales of electronic components. The Risingnovas Group was acquired so as to continue the expansion of the Group's Ingdan Incubator business.

39. ACQUISITION OF SUBSIDIARIES (Continued)

(b) For the year ended 31 December 2018 (Continued)

Risingnovas Group (Continued)

Consideration transferred

	RMB'000
Cash	74,737

Acquisition-related costs amounting to approximately 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.

Assets acquired and liabilities recognised as at the date of acquisition are as follows:

	RMB'000
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 identifiable assets acquired	(30,974)
Goodwill arising on acquisition	43,763

39. ACQUISITION OF SUBSIDIARIES (Continued)

(b) For the year ended 31 December 2018 (Continued)

Risingnovas Group (Continued)

Net cash outflows on acquisition of the Risingnovas Group:

	RMB'000
Cash consideration paid	74,737
Less: cash and cash equivalents acquired	(9,585)
	65,152

Included in the profit for the year is a loss of approximately RMB1,803,000 attributable to the additional business generated by the Risingnovas Group. Revenue for the year includes approximately RMB27,000 generated from the Risingnovas Group.

New United Group

On 21 December 2018, the Group acquired 51% equity interest in the New United Group for a cash 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 the New United Group are the distribution and sales of other electronic components. The 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 approximately 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.

39. ACQUISITION OF SUBSIDIARIES (Continued)

(b) For the year ended 31 December 2018 (Continued)

New United Group (Continued)

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

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	173,950
Plus: non-controlling interests (49% in the New United Group)	65,723
Less: net identifiable assets acquired	(134,127)
Goodwill arising on acquisition	105,546

The non-controlling interests in the New United Group recognised at the acquisition date was measured at their proportionate share of net assets acquired and amounted to approximately RMB65,723,000.

Net cash outflows on acquisition of the New United Group:

	RMB'000
Cash consideration paid	173,950
Less: cash and cash equivalents 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 the New United Group. No revenue for the year was generated from the New United Group.

39. ACQUISITION OF SUBSIDIARIES (Continued)

(b) For the year ended 31 December 2018 (Continued)

Heicolink Group

On 24 December 2018, the Group acquired 53% equity interest in the Heicolink Group for a cash 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 the Heicolink Group are the distribution and sales of other electronic components. The Heicolink Group was acquired so as to continue the expansion of the Group's Ingdan Incubator business.

Consideration transferred

	RMB'000
Cash	186,087

Acquisition-related costs amounting to approximately RMB65,000 have been excluded from the consideration transferred and 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
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.

39. ACQUISITION OF SUBSIDIARIES (Continued)

(b) 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 the Heicolink Group)	57,268
Less: net identifiable assets acquired	(121,846)
Goodwill arising on acquisition	121,509

The non-controlling interests in the Heicolink Group recognised at the acquisition date was measured at their proportionate share of net assets acquired and amounted to approximately RMB57,268,000.

Net cash outflows on acquisition of the Heicolink Group:

	RMB'000
Cash consideration paid	186,087
Less: cash and cash equivalents acquired	(4,118)
	181,969

Included in the profit for the year is approximately RMB256,000 attributable to the additional business generated by the Heicolink Group. Revenue for the year includes approximately RMB825,000 generated from the Heicolink Group.

Had the acquisitions of the Risingnovas Group, the New United Group and the Heicolink Group been completed on 1 January 2018, total revenue of the Group for the year would have been increased by approximately RMB113,113,000, and profit for the year would have decreased by 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 the Risingnovas Group, the New United Group and the 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 the Risingnovas Group, the New United Group and the 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.

40. 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"), a directly wholly-owned subsidiary of the Company, entered an agreement with Rich Wisdom Ventures Limited ("RWV"), an independent third party to the Group, that CGI agreed to sell and RWV agreed to purchase 30% of the issued share capital of Mega Smart Group Limited ("Mega Smart"), a wholly-owned subsidiary of CGI (the "Share Transfer Agreement"). In accordance with the Share Transfer Agreement, the consideration is the entire equity interest held by RWV, in Shanghai Comtech and its wholly-owned subsidiary, Shanghai E&T Auto (the "Share Transfer Transaction").

On 9 March 2018, Mega Smart has changed its name as EZ Robot.

The principal activity of EZ Robot was investment holding, while the principal activities of Shanghai Comtech and Shanghai E&T 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 Comtech and Shanghai E&T Auto of which has been accounted for using the acquisition method.

The fair values of the identifiable assets acquired and liabilities recognised of Shanghai Comtech and Shanghai E&T Auto upon the completion of the Share Transfer Transaction were as follows:

	RMB'000
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

40. 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)

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 the EZ Robot Group were measured by reference to the proportionate share of the net assets of the EZ Robot Group. A schedule of the effect of the Share Transfer Transaction is as follows:

	RMB'000
Fair value of consideration shares	70,000
Carrying amount of the interest of non-controlling interest upon acquisition	(4,950)
Difference recognised in other reserve within equity	65,050

The fair value of the consideration shares was reference to the fair value of the identifiable assets of the EZ Robot Group on the date of Share Transfer Transaction which was performed by an independent valuation firm, Trinity Corporate Finance Limited.

An analysis of the net cash inflows in respect of the Share Transfer Transaction is as follows:

	RMB'000
Cash consideration paid	—
Add: cash and cash equivalents acquired	9,953
	9,953

(b) Disposal of the 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 lost the control over the EZ Robot Group and the EZ Robot Group became an associate of the Group.

40. CHANGE IN OWNERSHIP INTERESTS (Continued)

(b) Disposal of the EZ Robot Group (Continued)

The net assets of the EZ Robot Group at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash	104,308

Analysis of assets and liabilities over which control was lost:

	RMB'000
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 interests	(11,968)
	27,926

40. CHANGE IN OWNERSHIP INTERESTS (Continued)

(b) Disposal of the EZ Robot Group (Continued)

Gain on disposal of the 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 interests in associates retained on loss of control of the subsidiaries	135,407
Waiver of intercompany balances (note)	(28,316)
Gain on disposal of the EZ Robot Group	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 of amounted to approximately RMB644,440,000 at the date of disposal. The best estimate at the date of disposal of the contractual cash flows not expected to be collected amounted to approximately RMB28,316,000.

An analysis of the net cash outflows in respect of the disposal of the 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 the 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 operating activities, contributed approximately RMB1,003,000 in respect of investing activities and nil in respect of financing activities.

41. 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.

	Lease liabilities RMB'000 (note 18)	Accrued interest payable RMB'000 (note 30)	Bank loans RMB'000 (note 32)	Total RMB'000
At 1 January 2019	5,570	—	1,125,860	1,131,430
Financing cash flows:				
— Addition	—	—	455,252	455,252
— Repayment	(9,548)	(55,885)	(1,413,250)	(1,478,683)
Non-cash changes:				
— Accrued interest	—	55,855	—	55,885
— New leases arrangement (note 44)	28,765	—	—	28,765
— Acquisition of subsidiaries (note 39 (a))	—	—	10,000	10,000
— Exchange realignment	—	—	2,814	2,814
At 31 December 2019	24,787	—	180,676	205,463

	Accrued interest payable RMB'000 (note 30)	Bank loans RMB'000 (note 32)	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

42. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2019 RMB'000	2018 RMB'000
Non-current asset			
Investments in subsidiaries		**2,143,716**	2,125,472
Current assets			
Deposits, prepayments and other receivables		**146,558**	144,741
Cash and cash equivalents		**1,188**	5,068
		147,746	149,809
Current liabilities			
Other payables		**7,291**	13,696
Amounts due to subsidiaries	(a)	**133,111**	9,884
		140,402	23,580
Net current assets		**7,344**	126,229
Net assets		**2,151,060**	2,251,701
Capital and reserves			
Share capital	34	**1**	1
Reserves	(b)	**2,151,059**	2,251,700
Total equity		**2,151,060**	2,251,701

Notes:

(a) The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

42. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes: (Continued)

(b) movements in reserves

	For the year ended 31 December 2019							
	Share premium RMB'000	Capital Reserve RMB'000	Share-based compensation reserve RMB'000	Other reserve RMB'000	Shares held for the RSU Scheme RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2019	2,256,270	18,923	25,904	186,196	(86,294)	23,969	(173,268)	2,251,700
Loss for the year	–	–	–	–	–	–	(24,591)	(24,591)
Other comprehensive income:								
Exchange difference arising on translating of financial statements from functional currency to presentation currency	–	–	–	–	–	30,230	–	30,230
Total comprehensive income (expense) for the year	–	–	–	–	–	30,230	(24,591)	5,639
Issue of shares under the RSU Scheme (note 34(vii))	–	–	(26,118)	–	26,118	–	–	–
Equity-settled share-based compensation expenses (note 38)	–	–	25,443	–	–	–	–	25,443
Repurchase and cancellation of own shares (note 34(v))	(131,723)	–	–	–	–	–	–	(131,723)
At 31 December 2019	2,124,547	18,923	25,229	186,196	(60,176)	54,199	(197,859)	2,151,059

42. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes: (Continued)

(b) movements in reserves (Continued)

	Share premium RMB'000	Capital Reserve RMB'000	Share-based compensation reserve RMB'000	Other reserve RMB'000	Shares held for the RSU Scheme RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
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 functional 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 38)	–	–	21,496	–	–	–	–	21,496
Repurchase and cancellation of own shares (note 34(ii))	(13,755)	–	–	–	–	–	–	(13,755)
Repurchase shares for the RSU scheme (note 34(iii))	–	–	–	–	(20,404)	–	–	(20,404)
Issue of shares under the RSU scheme (note 34(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

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The below table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Name of subsidiary (note (a))	Place of incorporation/ establishment/ operations	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 2019	Direct 2018	Indirect 2019	Indirect 2018	Principal activities
Comtech Broadband Corporation Limited ("Comtech Broadband")	Hong Kong	Ordinary	HK$2,000,000	–	–	70%	70%	Sales of electronics components and related products
Comtech Digital Technology (Hong Kong) Limited	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 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
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")	PRC	Contributed capital	HK$1,200,000	–	–	100%	100%	Development of e-commerce software technology and provision of e-commerce services
FOXSAAS Information Technology (Shenzhen) Limited 赤狐信息技術(深圳)有限公司	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

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary (note (a))	Place of incorporation/ establishment/ operations	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 2019	Direct 2018	Indirect 2019	Indirect 2018	Principal activities
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
Qianhai Cogobuy.com (Shenzhen) Limited 前海科通芯城通信技術(深圳)有限公司	PRC	Contributed capital	HK$200,000,000	–	–	100%	100%	Sales of electronics components and related products
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%	100%	Sales of electronics components and related products
Cogobuy Group, Inc.	BVI	Ordinary	US$50,000	–	–	51%	51%	Investment holding
Heicolink Technology (Hong Kong) Limited	Hong Kong	Ordinary	HK$10,000	–	–	53%	53%	Sales of electronics components and related products
Cogobuy Broadband Corporation Limited 科通芯城寬帶有限公司	Hong Kong	Ordinary	HK$100,000	–	–	100%	100%	Sales of electronics components and related products
Shenzhen FOXSAAS Software Technology Limited 深圳市赤狐軟件技術有限公司	PRC	Contributed capital	RMB1,000,000	–	–	100%	100%	Development of e-commerce software technology
上海博迪通信技術有限公司	PRC	Contributed capital	RMB3,000,000	–	–	100%	100%	Sales of electronics components and related products
Cogolink Technology Limited	Hong Kong	Ordinary	HK$3,500,000	–	–	51%	51%	Sales of electronics components and related products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary (note (a))	Place of incorporation/ establishment/ operations	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 2019	Direct 2018	Indirect 2019	Indirect 2018	Principal activities
Shenzhen Xeno Communication Technology Company Limited 深圳市協諾通信技術有限公司	PRC	Contributed capital	RMB50,000,000	–	–	100%	100%	Sales of electronics components and related products
Shenzhen Baochuang	PRC	Contributed capital	RMB6,600,000	–	–	53% (note (b))	–	Sales of electronics components and related products
Tecnomic Components Pte. Ltd.	Singapore	Ordinary	SGD500,000	–	–	100%	100%	Sales of electronics components and related products
Tung Link Co., Ltd. 同興股份有限公司	Hong Kong	Ordinary	HK$10,000	–	–	55%	55%	Sales of electronics components and related products
Cogolink Technology (Shenzhen) Limited	PRC	Contributed capital	RMB10,000,000	–	–	51%	N/A	Sales of electronics components and related products
INGDAN.com (Beijing) Limited 硬蛋科技(北京)有限公司	PRC	Contributed capital	RMB2,004,800	–	–	100%	100%	Sales of electronics components and related products
Shenzhen Cogobuy Information Technologies Limited 深圳市可購百信息技術有限公司	PRC	Contributed capital	RMB1,000,000	–	–	100%	100%	Sales of electronics components and related products
Heicolink Technology (Shenzhen) Limited	PRC	Contributed capital	RMB5,000,000	–	–	53%	53%	Sales of electronics components and related products
BCT HK	Hong Kong	Ordinary	HK$21,277	–	–	53% (note (b))	–	Sales of electronics components and related products

* The English is for identification purpose only

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Notes:

(a) The nature of all the legal entities established in PRC is limited liability company.

(b) The subsidiary was acquired through capital injection during the year ended 31 December 2019. Details are set out in note 39(a).

(c) Cogobuy E-commerce, the Company's wholly-owned subsidiary, entered into a series of contractual arrangements (the "Contractual Arrangements") with Shenzhen Cogobuy, wholly-owned by the Group, and Ms. Yao Yi which enable Cogobuy Ecommerce to:

— exercise effective financial and operational control over Shenzhen Cogobuy;

— exercise equity shareholders' voting rights of Shenzhen Cogobuy;

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

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

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

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

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

(d) The subsidiary was acquired on 19 December 2018. Details are set out in note 39(b).

(e) The subsidiary was acquired on 21 December 2018. Details are set out in note 39(b).

(f) The subsidiary was acquired on 24 December 2018. Details are set out in note 39(b).

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries engage in investment holding and inactive. The aggregation shown below based on the geographical location and nature of business. A summary of these subsidiaries are set out as follows:

Principal activities	Place of incorporation or registration/operations	Number of subsidiaries	
		2019	2018
Investment holding	Cayman Islands	1	1
	BVI	14	11
	Hong Kong	—	1
	PRC	1	—
Inactive	PRC	6	8
	Hong Kong	8	5
	Singapore	2	2
	Italy	—	1
	Japan	—	—
	Israel	1	1
	United States of America	—	1
	BVI	2	—
		35	31

None of the subsidiaries had issued any debt securities outstanding at the end of both years or at any time during both years.

43. 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) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Comtech Broadband	Hong Kong	**30%**	30%	**(389)**	(874)	**5,967**	4,832
Ingdan Shenzhen	PRC	**30%**	30%	**2,117**	2,580	**25,459**	23,342
The New United Group	BVI	**49%**	49%	**4,978**	(135)	**70,566**	65,588
The Heicolink Group	BVI	**47%**	47%	**4,977**	120	**62,365**	57,388

The summarised financial information in respect of each of the Group's subsidiary or group of subsidiaries 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	
	2019 RMB'000	2018 RMB'000
Current assets	**125,619**	426,120
Non-current assets	**39**	43
Current liabilities	**(105,768)**	(410,055)
Equity attributable to owners of the Company	**13,923**	11,276
Non-controlling interests	**5,967**	4,832

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Comtech Broadband (Continued)

	For the year ended 31 December 2019 RMB'000	For the year ended 31 December 2018 RMB'000
Revenue	**29,937**	241,676
Expenses	**(31,233)**	(244,588)
Loss for the year	**(1,296)**	(2,912)
Loss attributable to the owners of the Company	**(907)**	(2,038)
Loss attributable to the non-controlling interests	**(389)**	(874)
Loss for the year	**(1,296)**	(2,912)
Other comprehensive income attributable to the owners of the Company	**3,554**	607
Other comprehensive income attributable to the non-controlling interests	**1,524**	260
Other comprehensive income for the year	**5,078**	867
Total comprehensive income (expense) attributable to the owners of the Company	**2,647**	(1,431)
Total comprehensive income (expense) attributable to the non-controlling interests	**1,135**	(614)
Total comprehensive income (expense) for the year	**3,782**	(2,045)
Net cash inflows from operating activities	**1,022**	102,040
Net cash inflows (outflows) from investing activities	**4**	(263,963)
Net cash inflows from financing activities	**—**	123,380
Net cash inflows (outflows)	**1,026**	(38,543)

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Ingdan Shenzhen

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets	**121,292**	83,330
Non-current assets	**6,715**	12,410
Current liabilities	**(43,146)**	(17,935)
Equity attributable to owners of the Company	**59,402**	54,463
Non-controlling interests	**25,459**	23,342

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue	**91,783**	91,002
Expenses	**(84,727)**	(82,401)
Profit for the year	**7,056**	8,601
Profit attributable to the owners of the Company	**4,939**	6,021
Profit attributable to the non-controlling interests	**2,117**	2,580
Profit for the year	**7,056**	8,601
Total comprehensive income attributable to the owners of the Company	**4,939**	6,021
Total comprehensive income attributable to the non-controlling interests	**2,117**	2,580
Total comprehensive income for the year	**7,056**	8,601
Net cash outflows from operating activities	**(16,185)**	(17,614)
Net cash inflows from investing activities	**795**	698
Net cash outflows	**(15,390)**	(16,916)

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

The New United Group

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Current assets	**20,602**	1
Non-current assets	**190,032**	217,496
Current liabilities	**(45,256)**	(54,787)
Non-current liabilities	**(21,367)**	(28,859)
Equity attributable to owners of the Company	**73,445**	68,263
Non-controlling interests	**70,566**	65,588

	From 1 January 2019 to 31 December 2019 RMB'000	From 21 December 2018 (date of acquisition) to 31 December 2018 RMB'000
Revenue	**93,078**	—
Expenses	**(82,918)**	(276)
Profit (loss) for the year	**10,160**	(276)
Profit (loss) attributable to the owners of the Company	**5,182**	(141)
Profit (loss) attributable to the non-controlling interests	**4,978**	(135)
Profit (loss) for the year	**10,160**	(276)
Total comprehensive income (expense) attributable to the owners of the Company	**5,182**	(141)
Total comprehensive income (expense) attributable to the non-controlling interests	**4,978**	(135)
Total comprehensive income (expense) for the year	**10,160**	(276)
Net cash inflows (outflows) from operating activities and net cash inflows (outflows)	**554**	(276)

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

The Heicolink Group

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Current assets	**32,331**	31,330
Non-current assets	**155,344**	172,117
Current liabilities	**(37,935)**	(58,666)
Non-current liabilities	**(17,048)**	(22,679)
Equity attributable to owners of the Company	**70,327**	64,714
Non-controlling interests	**62,365**	57,388

	From 1 January 2019 to 31 December 2019 RMB'000	From 24 December 2018 (date of acquisition) to 31 December 2018 RMB'000
Revenue	**126,204**	825
Expenses	**(115,614)**	(569)
Profit for the year	**10,590**	256
Profit attributable to the owners of the Company	**5,613**	136
Profit attributable to the non-controlling interests	**4,977**	120
Profit for the year	**10,590**	256
Total comprehensive income attributable to the owners of the Company	**5,613**	136
Total comprehensive income attributable to the non-controlling interests	**4,977**	120
Total comprehensive income for the year	**10,590**	256
Net cash (outflows) from operating activities	**(21,732)**	256
Net cash inflows from investing activities	**18,456**	—
Net cash outflows	**(3,276)**	—

44. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2019, the Group entered into new arrangements in respect of buildings. Right-of-use assets and lease liabilities of approximately RMB28,765,000 were recognised at the commencement of the leases.

45. EVENTS AFTER THE REPORTING PERIOD

(i) On 23 December 2019, the Company and Comtech (China) Holding Ltd ("Comtech China"), a company indirectly wholly-owned by Mr. Kang, entered into a property leasing and complementary service framework agreement (the "Property Leasing and Complementary Service Framework Agreement") which Comtech China agreed to provide property leasing and complementary property management services to the Group from 1 January 2020 to 31 December 2022 at the monthly fee for (i) rental fee of RMB200 per square metre for offices; (ii) rental fee of RMB210 per square metre for the showroom; and (iii) property management service of RMB18 per square metre as complementary property management service. Details are set out in the Company's announcements dated 23 December 2019 and 20 February 2020, respectively.

Subsequent to the end of the reporting period, certain property leasing agreements have been signed by the Group and subsidiaries of Comtech China under the Property Leasing and Complementary Service Framework Agreement.

(ii) The outbreak of the novel coronavirus (COVID-19) has affected both sales of IC and other electronic components and the provision of supply chain financing services of the Group. Given the ongoing nature of these circumstances, the related impact on the consolidated results of operations, cash flows and financial conditions of the Group could not be reasonably estimated at this stage and will be reflected in their interim financial information for the six months ending 30 June 2020 and consolidated financial statements for the year ending 31 December 2020.

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, 2019 RMB'000	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
Results					
Revenue	**5,854,247**	5,534,829	9,613,696	12,932,794	9,453,389
Profit from operations (note)	**187,542**	172,725	433,634	649,255	453,439
Finance costs	**(55,885)**	(47,479)	(109,131)	(55,984)	(30,070)
Profit before tax	**162,787**	314,025	352,912	595,285	423,369
Income tax expenses	**(17,802)**	(16,239)	(51,609)	(85,678)	(56,888)
Profit for the year	**144,985**	297,786	301,303	509,607	366,481
Attributable to:					
— Owners of the Company	**110,067**	293,179	302,025	478,799	342,875
— Non-controlling interests	**34,918**	4,607	(722)	30,808	23,606
Profit for the year	**144,985**	297,786	301,303	509,607	366,481
Earnings per share					
Basic (RMB)	**0.077**	0.201	0.207	0.347	0.257
Diluted (RMB)	**0.076**	0.201	0.206	0.345	0.253

Note: Profit from operation excluded (i) share of results of associates and joint ventures, and (ii) gain on disposal of subsidiaries.

Five-Year Financial Summary (Continued)

	As at December 31, 2019 RMB'000	As at December 31, 2018 RMB'000	As at December 31, 2017 RMB'000	As at December 31, 2016 RMB'000	As at December 31, 2015 RMB'000
Assets and liabilities					
Total assets	**5,431,772**	5,973,968	5,541,007	8,640,113	4,966,784
Total liabilities	**(1,131,763)**	(1,749,219)	(1,901,763)	(4,954,178)	(2,965,233)
NET ASSETS	**4,300,009**	4,224,749	3,639,244	3,685,935	2,001,551
Total equity attributable to owners of the Company	**4,114,884**	4,074,428	3,609,869	3,600,494	1,921,200
Non-controlling interests	**185,125**	150,321	29,375	85,441	80,351
TOTAL EQUITY	**4,300,009**	4,224,749	3,639,244	3,685,935	2,001,551

Definitions

"AI"	artificial intelligence
"AIoT"	AI and IoT
"Alphalink"	Alphalink Global Limited, a company incorporated in the BVI, a direct wholly-owned subsidiary of Cogobuy Inc and the sole shareholder of Comtech Industrial SZ
"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 the Company
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this report, references in this report to the PRC or China do not include Taiwan, Hong Kong or Macau; the term "Chinese" has a similar meaning
"Cogobuy"	Cogobuy Limited, a limited liability company incorporated in Hong Kong on 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
"Cogobuy Inc"	Cogobuy Group, Inc., a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company
"Companies Law"	Companies Law (2018 Revision) of the Cayman Islands, as amended from time to time
"Company", "our Company" or "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 Broadband"	Comtech Broadband Corporation Limited, a company incorporated in Hong Kong on March 23, 2005 and our indirect subsidiary owned as to 70%

"Comtech China"	Comtech (China) Holding Ltd., a limited liability company incorporated in the BVI on May 27, 2002 which is indirectly wholly-owned by Mr. Kang
"Comtech Communication"	Comtech Communication Technology (Shenzhen) Company Limited (科通通信技術(深圳)有限公司), a company established in the PRC and an associate of Mr. Kang
"Comtech Digital HK"	Comtech Digital Technology (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on February 11, 2010, and our indirectly wholly-owned subsidiary
"Comtech Industrial SZ"	Comtech Industrial Technology (Shenzhen) Company Limited* (科通工業技術(深圳)有限公司), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company
"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
"COVID-19"	Coronavirus disease 2019
"Director(s)"	the director(s) of the 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
"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 the 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
"Hardeggs"	Hardeggs Holdings Limited, a company incorporated in the BVI and a subsidiary of INGDAN
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IC"	integrated circuits
"INGDAN"	INGDAN.com Group, Inc., a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of Cogobuy Inc

"INGDAN.com"	INGDAN.com online technology platform
"Ingdan Innovations"	Ingdan innovations business units
"Ingfin Services"	Ingfin Services business unit
"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 the Company and our Controlling Shareholder
"Mr. Wu"	Mr. Wu Lun Cheung Allen (胡麟祥), chief financial officer, executive Director and company secretary of the 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 senior management members of Ingdan Innovations
"NASDAQ"	National Association of Securities Dealers Automated Quotations
"Optimum"	Optimum Profuse Limited, a company incorporated in the BVI
"PRC Legal Advisor"	Broad & Bright Law Firm
"Prospectus"	the prospectus of the Company dated July 8, 2014
"Qianhai Cogobuy.com"	Qianhai Cogobuy.com (Shenzhen) Limited* (前海科通芯城通信技術(深圳)有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
"R&D"	research and development

Definitions (Continued)

"RMB"	Renminbi, the lawful currency of PRC
"Reporting Period"	the year ended December 31, 2019
"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 granted under the RSU Scheme
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the share capital of the Company with a par value of US$0.0000001 each
"Shareholder(s)"	holder(s) of Share(s) of the Company from time to time
"Shenzhen Cogobuy"	Shenzhen Cogobuy Information Technologies Limited (深圳市可購百信息技術有限公司), a limited liability company established in the PRC on December 13, 2012, wholly-owned by Ms. Yao and, by virtue of the contractual arrangements, accounted for as our subsidiary
"Shenzhen Comtech"	Shenzhen Comtech Small Loan Limited Company* (深圳市科通小額貸款有限責任公司), a limited liability company established in the PRC and a direct wholly-owned subsidiary of Comtech Communication
"SME"	small and medium enterprise
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	the meaning ascribed to it under the Listing Rules
"Total Dynamic"	Total Dynamic Holdings Limited, a limited liability company incorporated in the BVI on December 4, 2012 which is wholly-owned by Ms. Yao and is our Shareholder
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"V2X"	Vehicle-to-Everything

* For identification purpose only