长虹佳华
CHANGHONG IT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 3991

ANNUAL REPORT 2020

CONTENTS

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	Unit 1412, 14/F, West Tower, Shun Tak Centre 168–200 Connaught Road Central Hong Kong
Bermuda principal share registrar and transfer office	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 1712–1716, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited China Insurance Group Building 141 Des Voeux Road Central, Sheung Wan Hong Kong
Stock exchange	Main Board of The Stock Exchange of Hong Kong Limited
Stock code	3991
Website	www.changhongit.com
E-mail address	fengyl@changhongit.com
Board of Directors	
Executive Directors	Mr. ZHU Jianqiu (Chairman and President) Mr. PAN Xiaoyong Mr. ZHANG Xiaolong Mr. LUO Yongping

CORPORATE INFORMATION

Independent Non-executive Directors	Mr. Jonathan CHAN Ming Sun Mr. GAO Xudong Mr. MENG Qingbin
Authorised representatives	Mr. ZHU Jianqiu Mr. CHENG Ching Kit
Company Secretary	Mr. CHENG Ching Kit
Audit Committee	Mr. Jonathan CHAN Ming Sun (Chairman) Mr. GAO Xudong Mr. MENG Qingbin
Remuneration Committee	Mr. Jonathan CHAN Ming Sun (Chairman) Mr. ZHU Jianqiu Mr. MENG Qingbin
Nomination Committee	Mr. ZHU Jianqiu (Chairman) Mr. Jonathan CHAN Ming Sun Mr. GAO Xudong
Auditor	Deloitte Touche Tohmatsu Registered Public Interest Entity Auditors 35/F, One Pacific Place 88 Queensway, Admiralty Hong Kong

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZHU Jianqiu, aged 58, joined Changhong Jiahua Holdings Limited (the "Company", and collectively with its subsidiaries, the "Group") as an executive Director and the president of the Company in April 2013, and was further appointed as the chairman of the board of directors of the Company in April 2021. Mr. Zhu is responsible for strategic development and the overall operation management of the Group. Mr. Zhu is also the director and chief executive officer of each of the following subsidiaries of the Company, namely Sichuan Changhong IT Information Products Company Limited ("Changhong IT"), Sichuan Changhong IT Digital Technology Co., Ltd. ("Changhong IT Digital"), Beijing Changhong IT Intelligence System Co., Ltd. ("Changhong IT Intelligence"), Changhong IT (Hong Kong) Information Products Co., Ltd. ("Changhong IT Information") and Sichuan Changhong IT Duolayouhuo ECommerce Co., Ltd. ("Duolayouhuo"), the chairman of Sichuan Changhong Cloud Computing Company Limited* (四川長虹雲計算有限公司, "OPCO") and PT. Changhong Jiahua Information Technology Indonesia ("Changhong Jiahua Indonesia"), executive director of Changhong (Hong Kong) Enterprises Limited, and director of Sufficient Value Group Limited and Wide Miracle Limited. He obtained a Doctoral Degree in Economics from Renmin University and a Bachelor Degree in 1984 from Northeast University in the PRC and has more than 23 years of experience in information technology ("IT") industry management.

Mr. PAN Xiaoyong, 46, joined the Company as an executive director in April 2021. Mr. Pan is primarily responsible for the technological innovation and capital operation of the Group. He is a director of Sichuan Changhong Electric Co., Limited ("Sichuan Changhong") (Shanghai Stock Exchange stock code: 600839) and the deputy general manager of Sichuan Changhong Electronics Holding Group Company Limited ("Sichuan Changhong Holding", and collectively with its subsidiaries, the "Sichuan Changhong Electric Group"), and serves in various positions within the Sichuan Changhong Electronics Group. He obtained a bachelor's degree in engineering from Hefei University of Technology in June 1998, a master's degree in engineering from Hefei University of Technology in June 2000 and a doctor's degree in engineering from Hefei University of Technology in December 2003. Mr. Pan worked in postdoctoral research in the major of mechanical manufacturing and automation of the Department of precision instruments of Tsinghua University. He is a national leading talent in scientific and technological innovation and a recipient of special government subsidy from the State Council. He has more than 21 years of experience in the field of technological innovation and rich investment experience.

Mr. ZHANG Xiaolong, aged 45, joined the Company as an executive director in April 2021. Mr. Zhang is responsible for the financing of the Group. He is the chief financial officer of Sichuan Changhong. He obtained a bachelor's degree in accounting from Zhongnan University of Economics and Law in July 1998 and a master's degree in business administration from the University of Electronic Science and Technology of China in June 2017. He has over 22 years of experience in financial management and corporate finance.

Mr. LUO Yongping, aged 45, joined the Company as an executive Director in January 2019. Mr. Luo is principally responsible for the investment and business merger of the Group. He is vice general manager of Sichuan Provincial Investment Group Co., Ltd. ("Sichuan Provincial Investment Group") and serves as a director in certain subsidiary of Sichuan Provincial Investment Group. Mr. Luo obtained a Bachelor's Degree in Archival science from Sichuan University in June 1997 and a master's degree in historical literature from Sichuan University in July 2000 and has over 20 years experience in corporate management.

* *The English translation is for identification purpose only.*

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan CHAN Ming Sun, aged 48, joined the Company as an independent non-executive Director in February 2007. Mr. Chan was appointed as the chairman of each of the audit committee and remuneration committee of the Company, and a member of the nomination committee of the Company. He is an investment manager of Sprint Asset Management Limited. He is also acting as the independent non-executive director of each of the following listed companies on the Stock Exchange, namely Grand Peace Group Holdings Limited (stock code: 8108), China Dredging Environment Protection Holdings Limited (stock code: 871), Hao Tian Development Group Limited (stock code: 474), Up Energy Development Group Limited (stock code: 307)*(Note)* and Fujian Nuoqi Co., Ltd. (stock code: 1353). He was the independent non-executive director of each of the following listed companies on the Stock Exchange, namely Shenyang Public Utility Holdings Company Limited (stock code: 747), from 13 February 2015 to 12 November 2020, and Dining Concepts Holdings Limited (currently known as Life Concepts Holdings Limited) (stock code: 8056) from 14 July 2016 to 12 December 2018. He obtained his Bachelor Degree of Commerce in Accounting and Information System from University of New South Wales, Australia. He is also a fellow member of the Hong Kong Institute of Directors and a member of Hong Kong Institute of Certified Public Accountants and CPA, Australia. He has over 20 years of experience in investment and corporate finance.

Mr. GAO Xudong, aged 55, joined the Company as an independent non-executive Director in May 2019. Mr. Gao was appointed as the member of each of the audit committee and nomination committee of the Company. He has been an independent director of Gridsum Holding Inc. (a company that was listed on NASDAQ and was delisted on 5 April 2021, stock code: GSUM) from 2006 to 24 March 2021. Mr. Gao obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1988, a master's degree in economics from Renmin University of China in 1991, and a doctor's degree in management from Sloan School of Management in Massachusetts Institute of Technology in 2003. Mr. Gao is a vice director of Research Center for Technological Innovation, Tsinghua University, a chair professor at Schwarzman College, Tsinghua University and a professor at School of Economics and Management, Tsinghua University. He has been a member of the Expert Committee for Telecommunication Economy of the Ministry of Industry and Information Technology since January 2010. He has over 30 years of experience in economics and corporate governance research.

Mr. MENG Qingbin, aged 40, joined the Company as an independent non-executive Director in May 2019. Mr. Meng was appointed as the member of each of the audit committee and remuneration committee of the Company. Mr. Meng obtained a bachelor's degree in engineering and a bachelor's degree in science from Tianjin University in June 2003, a master's degree in science from Nankai University in June 2006, and a doctor's degree in finance from Nankai University in June 2009. Mr. Meng is a professor and an instructor of doctorate students at the School of Business of Renmin University of China. He serves as independent director of Puhui Wealth Investment Management Co. Ltd. (a company listed on NASDAQ, stock code: PHCF) since September 2017, Bank of Tangshan since April 2018 and Bohai International Trust Co., Ltd. since July 2018. He has over 12 years of experience in investment and financial theory study and practice.

Note: The appointment of Mr. Chan as the independent non-executive director of Up Energy Development Group Limited (stock code: 307) ("Up Energy") is under dispute arising as to the validity of the special general meeting of UP Energy and the resolutions passed therein in respect of removal of original directors and appointment of new directors, including Mr. Chan as independent non-executive director. Mr. Chan confirmed that he has never been involved in the operation and decision-making process of UP Energy in relation to his role as independent non-executive director. As stated in the announcement of UP Energy dated 23 May 2017, the powers of its board of directors had ceased upon application of the provision liquidators to the Supreme Court of Bermuda. UP Energy is currently in provisional liquidation and managed by provision liquidators with full powers. For details, please refer to the relevant announcements of Up Energy.

SENIOR MANAGEMENT

Mr. ZHU Jianqiu is the president of the Company. For Mr. Zhu's biography, please refer to the section of "Executive Directors" above.

Ms. SU Huiqing, aged 51, is the director of OPCO and Changhong Jiahua Indonesia. Ms. Su is also the vice president of the Company, Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information and Duolayouhuo. Ms. Su is responsible for the management of human resources, operation and administration of the Group. She holds a Bachelor Degree in Automation from Shanghai Jiaotong University and has more than 28 years of experience in business development in the IT industry.

Ms. YANG Na, aged 39, was appointed as the Financial Controller in November 2017. She is currently the financial controller of Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information, Duolayouhuo, OPCO and Changhong Jiahua Indonesia. She obtained a bachelor's degree in management from the Qinhuangdao branch of the Northeastern University in the PRC in 2003 and a master's degree of business administration from the Graduate School of the Chinese Academy of Social Sciences in the PRC in 2012 and has 15 years of experience in accounting and financial management.

Ms. FENG Yongli, aged 50, was appointed as the board secretary of the Company in December 2020. She is currently the special assistant to the president of Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information and Duolayouhuo. She obtained a Bachelor Degree of Engineering from Shanghai University in 1992 and a Master Degree of Economics from Renmin University of China in 1998.

COMPANY SECRETARY

Mr. CHENG Ching Kit, was appointed as a joint company secretary of the Company in June 2018 and became the sole company secretary of the Company on 11 December 2020. Mr. Cheng was appointed as the authorised representative for the purpose of Rule 3.05 of the Listing Rules and Part 16 of the Companies Ordinance with effect from 11 December 2020. Mr. Cheng is a manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specialising in corporate services and has over eight years of experience in corporate secretarial field. He is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom. In addition, he holds a Bachelor of Commerce degree in finance from the University of Queensland, Australia.

Save as disclosed above, as at the date of this annual report, none of the directors or senior management holds any other position within the Group.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2020, the Coronavirus Disease 2019 epidemic ("COVID-19 epidemic") impacted the global economy. However, the group grasped the market opportunities, continued to operate steadily and achieved good growth.

BUSINESS REVIEW

The COVID-19 epidemic has ravaged the globe in 2020. The global economy, trade and investment have been severely damaged, causing substantial recession in the world economy, which showed a slow recovery in the second half of 2020. Amidst the challenging domestic and international environment, China has proactively taken effective measures to cope with the pandemic and has leveraged its macro policies to counteract the negative impact, resulting in a sustainable steady recovery of the economy. The digital economy has become the new driving force of the recovery, and the pandemic and the new infrastructures are driving a new wave of digitalization in China. In 2020, despite the challenges of the pandemic, the Group overcame all kinds of uncertainties, worked closely with domestic and overseas manufacturers to respond to the needs and take advantage of the situation, thereby showing a positive development trend in all businesses and achieving significant growth in results. The Group continued its strategic transformation in 2020, actively developed in areas such as big data, cloud computing, artificial intelligence and the Internet of Things with "Gathering strength on network, cloud and intelligence to serve its partners" as the business strategy, captured the new opportunities, improved the planning of mainstream cloud resources in the market, constructed a comprehensive ecology in the field of leading technologies, and built a customer-oriented cloud intelligent application with scenario and cloud service system. Jiahua Duola, the B2B new distribution e-commerce platform, focused on building regional distribution marketplaces for brand manufacturers, matching regional distributors with terminal distributors in online transactions. With the addition of a large number of merchants, the number of the brands and categories of Jiahua Duola platform increased, and the overall traffic and transaction scale has increased significantly.

In 2020, the Group recorded an income of about HK$40,381.30 million, up by 34.61% over the same period of the previous fiscal year; gross margin in 2020 was 2.67%, down by about 0.53 percentage point from the same period of the previous fiscal year, mainly due to the increase in sales contribution of the product line with low gross margin and intense competition in the market. The profit attributable to shareholders in 2020 was approximately HK$345.40 million, up by about 19.45% over the same period of the previous fiscal year and the basic earnings per share was HK$13.44 cents, up by HK$2.19 cents from HK$11.25 cents in the same period of the previous fiscal year.

The Group continuously consolidated basic management and strengthened informatization construction and business process transformation and optimization and built an intelligent business system so as to improve operation efficiency and reduce operating costs, and as a result providing customers with intelligent services with increased efficiency and convenience. The Group continued to reinforce risk management and control, insisted on strict inventory management, credit management and receivable management, reasonably allocate funds, and accelerated fund turnover in a bid to ensure the safety and efficiency of working capital. The Group continued its efforts to tighten expense control, and research and development cost increased compared with the same period of last year due to the increase in the development costs of information system; the distribution and sales expenses increased compared with the same period of last year, mainly due to the increase in labor costs and the increase in marketing fee arising from enhanced marketing; the financing cost rose compared with the same period of last year due to the increase of financing scale.

CHAIRMAN'S STATEMENT

As at 31 December 2020, the turnover and profits of the three operating segments of the Company were analyzed as follows (RMB exchange rate fluctuations may affect the number/percentage of segments):

ICT consumer product distribution business: Given the challenges of the pandemic, the business took the advantage of the product line and fully leveraged the online sales channels and new online marketing models to foster the integration development of online and offline channels and maintain positive growth and stable profitability levels. The business's turnover increased by 16.31% to HK$14,254.21 million over the same period of last year, and its profit increased by 4.19% to HK$264.59 million.

ICT enterprise product distribution business: On top of the uncertainties including the pandemic and changes in the international environment overcame by the business, it also captured business opportunities, steadily developed its business with overseas manufacturers and actively expanded its cooperation with domestic manufacturers and result in significant growth in business scale; it also made great efforts in promoting the development of emerging business such as big data and cloud computing, and carried out in-depth strategic cooperation with leading industry manufacturers to establish system solutions and professional technical teams with leading technologies in order to enhance technical and service capabilities. The business's turnover increased by 23.74% to HK$10,022.44 million over the same period of last year, and its profit increased by 5.25% to HK$339.68 million.

Other businesses: Due to booming sales of smartphones via e-commerce channels, the business's turnover big increased by 66.98% over the same period of last year to HK$16,104.65 million; the profit from the business has risen by 96.54% to HK$91.51 million.

The Company has successfully transferred its listing from GEM to the Main Board of the Stock Exchange on 18 March 2020 (the "Transfer of Listing"). A listing status of the Company on the Main Board is generally perceived to enjoy a premier status amongst investors, which will help strengthen the recognition of the Group among both the existing Shareholders as well as the potential investors, resulting in a broader investor base and higher trading liquidity of the Shares. Further, facilitated by the enhanced status of the Group, it is believed that the Transfer of Listing will help reinforce the confidence of the Group's customers, suppliers and other stakeholders in the Company's financial strength, governance and credibility and will hence further promote the Company's corporate profile and recognition among public investors and the public in general. This will in turn further strengthen the Group's position in the industry and improve the Group's competitiveness in retaining its current employees, recruiting more talents and attracting new customers and suppliers which may ultimately help foster the business development of the Group and enhance return to the Shareholders in the long run.

With effect from 8 April 2021, in order to devote more time to their other business commitments, Mr. Zhao Yong has resigned as the chairman of the Board, an Executive Director and the chairman of the Nomination Committee, and Mr. Yang Jun has resigned as an Executive Director. With effect from 8 April 2021, Mr. Zhu Jainqiu has been appointed as the chairman of the Board and the chairman of the Nomination Committee, and Mr. Pan Xiaoyong and Mr. Zhang Xiaolong have been appointed as Executive Directors. For further details, please refer to the announcement of the Company dated 8 April 2021.

OUTLOOK

Looking ahead to 2021, the global economy is expected to remain depressed in the first half of the year due to the continuous spread of the COVID-19 epidemic outside of China, but the rollout of vaccines and additional stimulus fiscal policies are expected to assist the global economy to recover. The Chinese economy will continue to recover steadily in 2021 and build a new development pattern that domestic and International dual circulating and mutually promoting each other to promote high-quality and sustainable economic development. Following the in-depth development of the new round of technological revolution and industrial restructuring, and the innovation and wide penetration of the new generation of information technology represented by cloud computing, big data, the Internet of Things and artificial intelligence, industries and fields have accelerated their digital transformation. The digital economy continues to be a key driving force for China's economic growth, and the ICT industries are expecting a period of major change, major adjustment, and major development. In 2021, the Group will respond to the rapid development of the Internet of Things, cloud applications and trend of digital transformation, and will further develop our business and explore customer demands in the cloud era of the Internet of Things with the business strategy of "Deeply ploughing demands, empowering with intelligence and jointing good partners". The Group will be application-driven based on advanced technologies and products including the Internet of Things, artificial intelligence, big data and virtual reality, and be customer-oriented to create cloud intelligent application scenarios, systematically connect with our partners and be each other's nodes, work together to achieve transformation and upgrade of cloud-data integration in order to contribute greater value to our partners and shareholders.

ZHAO Yong *(resigned on 8 April 2021)*
Chairman

30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2020 was approximately HK$40,381.30 million (2019: HK$29,999.67 million), representing a increase of 34.61% as compared with the previous year. This increase was mainly attributable to the expansion of the e-commerce sales business and the growth of IT corporate products sales.

- Profit for the year ended 31 December 2020 was approximately HK$345.40 million (2019: HK$289.17 million), representing a increase of 19.45% as compared with the previous year. This increase was mainly attributable to the increase in revenue, the reduction in corporate income tax rates for certain subsidiaries and the increase in gain on fair value changes of financial assets at FVTPL.

- Total comprehensive income for the year ended 31 December 2020 was approximately HK$512.18 million (2019: HK$242.67 million). This increase was mainly attributable to the Fluctuations in the RMB exchange rate.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2020, the Group's financial and liquidity positions remained healthy and stable. As at 31 December 2020, the aggregate outstanding borrowings of the Group were approximately HK$2,195.45 million (2019: HK$1,005.29 million), which were unsecured and interest bearing. The increase in the Group's borrowings was due to the increase in demand of payment as compared with the corresponding period of last year. The Group's cash and bank balances amounted to approximately HK$3,287.36 million (2019: HK$1,734.22 million), together with trade and bills receivables amounting to approximately HK$3,528.45 million (2019: HK$2,468.44 million). For the year ended 31 December 2020, the Group's net current assets amounted to approximately HK$2,247.13 million (2019: HK$1,820.44 million) and the Group did not have any charges on its fixed assets (2019: Nil). The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 31 December 2020 was 3.75 times (2019: 2.83 times). The management of the Group is confident that with proper funding arrangements, the Group's financial resources are sufficient to finance its daily operations.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's monetary assets and liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United Stated dollars. As the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes its exposure to exchange risk is minimal. The Group will continue to monitor the situation and assess whether any hedging arrangement is necessary.

As at 31 December 2020, the Group did not have any foreign currency investments which have been hedged by currency borrowings and other hedging instruments.

TREASURY POLICY

Cash and bank deposits of the Group are either in Renminbi, Hong Kong dollars and United States dollars. The Group conducts its core business transaction mainly in Renminbi, Hong Kong dollars and United States dollars. The Group did not use any derivative instruments to hedge its foreign currency exposure as the Group considered its foreign currency exposure is insignificant.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2020, the total number of the Group's staff was 1,259 (2019: 1,043 staff). For the year ended 31 December 2020, total staff costs (including Directors) amounted to approximately HK$319.17 million (2019: HK$281.21 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The remuneration of executive Directors is determined based on the Company's financial position in a fixed sum; whereas the remuneration of independent non-executive Directors is determined with reference to the prevailing market conditions and the workload. The Group provides retirement benefit for its employees in Hong Kong in the form of mandatory provident fund, and pays social pension insurance and housing provident fund for its employees in China in accordance with the local laws and regulations.

During the year ended 31 December 2020, there were no outstanding share options adopted by the Company granted or exercised.

The Group did not experience any significant labour disputes or substantial changes in the number of its employees that led to any disruption of normal business operations. The Directors consider that the Group has developed good relationships with its employees.

CAPITAL STRUCTURE

The Group manages its capital structure to ensure optimal structure and shareholder returns, and uses its capital to promote its business development, ultimately increasing revenue and margins in the Information and Communication Technology ("ICT") distribution and Services business. Further capital may be used to increase its business diversification.

Capital of the Group comprises all components of equity, cash and bank balances and loans from major shareholders of the Company (the "Shareholders") or related companies.

Loans from major Shareholders or related companies are mainly for the purpose of supporting the daily operations of the Group.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

To expand the Group's e-commerce business, on 12 April 2019, Changhong IT Digital (the "WFOE"), OPCO, and Sichuan Changhong Holding entered into the VIE Agreements. Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. The Group intends for the OPCO to establish a new business-to-business e-commerce platform, which will connect third-party merchants with each other. The VIE Agreements had been approved by the shareholders at the special general meeting of the Company held on 17 May 2019. For further details, please refer to the announcements of the Company dated 12 April 2019 and 17 May 2019, and the circular of the Company dated 30 April 2019.

Save as disclosed above, the Group did not have any significant investments, acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

The Group will continue to devote to the ICT distribution business and IT comprehensive service while exploring new business opportunities that would enhance its businesses. No concrete plan for future investments is in place as at the latest practicable date prior to the printing of this report.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any material contingent liabilities.

EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR

Establishment of a Wholly-owned Subsidiary in Indonesia

The wholly-owned subsidiary of the Group named as "PT. Changhong Jiahua Information Technology Indonesia" has established in Indonesia on 11 February 2021, which will be conducive to the Group to build an international business development platform, seize good market opportunities and effectively promote the development of overseas business. For further details, please refer to the announcements of the Company dated 16 December 2020.

Save as disclosed above, there were no significant events occurred that might affect the Group after 31 December 2020.

CORPORATE GOVERNANCE REPORT

It has always been the Group's mission to enhance its corporate value, maintain its sustainable long-term development and create maximum returns for the Shareholders. In order to achieve the abovementioned objectives, the Company has established good corporate governance practices based on the principles of integrity, transparency, openness and efficiency, and has implemented and improved various policies, internal controls procedures and other management framework.

High corporate governance standard is built from good corporate culture. Corporate governance principles and policies can only be applied efficiently, effectively and consistently when good corporate culture is the corner stone of the Company. The Board considers that maintaining high standard of corporate governance and business ethics will serve the long-term interest of the Company and the Shareholders. The goal of the Company is to achieve well- balanced development and focus on the relevant corporate, social and environmental responsibilities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the corporate governance code (the "CG Code") as set out in Appendix 15 to the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") or Appendix 14 to the Rules Governing the Listing of Securities on (Main Board of) The Stock Exchange of Hong Kong Limited (the "Listing Rules")* which sets out corporate governance principles and code provisions (the "Code Provisions"). Throughout the year ended 31 December 2020, the Company has complied with all the Code Provisions as set out under the CG Code, except the following deviation:

Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong and Mr. LUO Yongping, the Directors of the Company, are not appointed for a specific term as required under code provision A.4.1 of the CG Code, but are subject to retirement by rotation at least once every three years in accordance with the Company's bye-laws (the "Bye-laws"). The Company considers that such requirement is sufficient to meet the same objective as a specific term of appointment under the CG Code.

COMMUNICATION WITH SHAREHOLDERS

The Company made substantial efforts to enhance communications with its Shareholders, and the Board tries to fully address any questions raised by the Shareholders.

The Company has established a Shareholders' communication policy and will review it on a regular basis to ensure its effectiveness. The Company published on its own website the procedures for Shareholders to propose candidates for election as Director. Shareholders may send their enquiries requiring the Board's attention to the company secretary of the Company (the "Company Secretary") at the Company's registered address. Questions about the procedures for convening or putting forward proposals at an annual general meeting or special general meeting may also be put to the Company Secretary by the same means. The Board members meet and communicate with Shareholders and investors at annual general meetings and other general meetings. Corporate communications (such as interim and annual reports, notices, circulars and announcements) are sent to Shareholders in a timely manner and are available on the websites of the Company and the Stock Exchange.

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Propose a Person for Election as a Director and Convene a Special General Meeting

According to bye-law 85 of the Bye-laws, a Shareholder (other than the person to be proposed) duly qualified to attend and vote at an annual general meeting of the Company may propose a person for election as a director at such meeting by lodging a notice in writing signed by such Shareholder of his intention to propose such person for election and a notice in writing signed by the person to be proposed of his willingness to be elected at the head office of the Company or the office of the Hong Kong branch share registrar of the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgement of such notices shall commence on the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

Other than election at annual general meetings, pursuant to bye-law 58 of the Bye-laws, 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 Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, including election of directors, and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists may do so themselves in accordance with the provisions of section 74(3) of the Companies Act 1981 of Bermuda.

BOARD OF DIRECTORS AND MANAGEMENT

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting up performance targets, monitoring internal controls and financial reporting and supervising the management's performance, while day-to-day operations are delegated by the Board to the management of the Group. The Board operates in accordance with established practices (including those relating to reporting and supervision), and is directly responsible for formulating the Company's corporate governance guidelines. The Board also approves matters by resolutions in writing. Information of material issues, due notices of meetings and minutes of Board meetings are sent to each of the directors for their information, comment and review.

The management of the Group is responsible for the daily operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any agreement on behalf of the Group.

The Board currently comprises seven members and their positions are as follows:

Executive Directors

Mr. ZHU Jianqiu (Chairman and President)
Mr. PAN Xiaoyong
Mr. ZHANG Xiaolong
Mr. LUO Yongping

Independent Non-Executive Directors

Mr. Jonathan CHAN Ming Sun
Mr. GAO Xudong
Mr. MENG Qingbin

The Directors have disclosed to the Company their positions held in other public companies, organizations or their associate and companies. The information regarding their directorships in other public companies is set out in the biographies of Directors and senior management on pages 4 to 6 of this annual report and on the Company's website. To ensure timely disclosure of any change of personal information, the Company has established a specific communication policy to handle the changes. There is no financial, business, family or other material relationships among members of the Board and all Directors have no business relationship with the Group.

The Company has arranged appropriate insurance coverage for Directors' and officers' liabilities and the terms of such insurance will be reviewed annually.

Except for Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong and Mr. LUO Yongping, the Company and each of its Directors (including independent non-executive Directors) has entered into a fixed-term service contract which is renewable automatically per annum. Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong and Mr. LUO Yongping have entered into service contracts with the Company with no fixed term, and are terminable by either party giving not less than one month's written notice or payment in lieu. All Directors are subject to retirement by rotation and are eligible to offer for re-election at annual general meetings of the Company.

The Company has also received acknowledgements from the Directors of their responsibility for preparing the financial statements and a representation by the auditors in relation to their reporting responsibilities.

The Directors possess the relevant experience and qualifications and have exercised due care to handle the significant matters of the Group.

BOARD MEETINGS

Board meetings are held at least four times during any given financial year at approximately quarterly intervals. During the year ended 31 December 2020, the Board held seven meetings and the details of the attendance of the Directors at the meetings of the Board and the committees and the general meetings were as follows:

Name of Directors	Annual general meeting/Special general meeting	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting
Executive Directors					
Mr. ZHAO Yong (resigned with effect from 8 April 2021)	1/2	6/7	N/A	1/1	N/A
Mr. ZHU Jianqiu	2/2	7/7	N/A	N/A	1/1
Mr. YANG Jun (resigned with effect from 8 April 2021)	2/2	7/7	N/A	N/A	N/A
Mr. PAN Xiaoyong (appointed with effect from 8 April 2021)	N/A	N/A	N/A	N/A	N/A
Mr. ZHANG Xiaolong (appointed with effect from 8 April 2021)	N/A	N/A	N/A	N/A	N/A
Mr. LUO Yongping	2/2	7/7	N/A	N/A	N/A
Independent Non-Executive Directors					
Mr. Jonathan CHAN Ming Sun	2/2	7/7	3/3	1/1	1/1
Mr. GAO Xudong	2/2	7/7	3/3	1/1	N/A
Mr. MENG Qingbin	2/2	7/7	2/3	N/A	1/1

During the Board meetings, the Board discussed and formulated the overall strategies of the Group, reviewed and monitored the business performances. The half-yearly and annual results and other significant matters were also discussed and decided during such meetings.

The chairman of the Board invited the chairman of the audit committee, remuneration committee and nomination committee of the Company or their delegates to attend the annual general meeting of the Company and to respond to any enquires at the annual general meeting of the Company.

In addition to the above formal meetings, the Company also arranged informal meetings with part of the Directors in 2020 to promote Directors to in-depth communicate each other and participate in the Company's business.

TRAINING

As part of an ongoing process of Directors' training, the Directors are updated with latest developments regarding the GEM Listing Rules or the Listing Rules and other applicable regulatory requirements from time to time to ensure compliance of the same by all Directors. All Directors are encouraged to attend external forums or training courses on relevant topics which may count towards continuous professional development training.

Pursuant to Code Provision A.6.5 of CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year of 2020, each of the Directors, namely, Mr. ZHAO Yong, Mr. ZHU Jianqiu, Mr. YANG Jun, Mr. LUO Yongping, Mr. Jonathan CHAN Ming Sun, Mr. GAO Xudong and Mr. MENG Qingbin, had participated in appropriate continuous professional development activities by attending training courses on the topics related to corporate governance and regulations which were provided by a hired law firm or by reading materials relevant to the Company's business or to their duties and responsibilities. Each of Mr. CHENG Ching Kit, currently the sole company secretary, and Mr. ZHAO Qilin, formerly one of the joint company secretaries, had taken no less than 15 hours of relevant professional training as required under Rule 5.15 of the GEM Listing Rules or Rule 3.29 of the Listing Rules* during the year ended 31 December 2020.

As part of the continuous professional development programme, the Directors participated in various briefings as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of directors. This is in addition to Directors' attendance of meetings and review of papers and circulars sent by management. The participation of individual Directors and the Joint Company Secretaries in the training programmes held during the year of 2020 is recorded in the table below.

	Reading Regulatory updates	Training courses provided by hired law firm
Executive Directors		
Mr. ZHAO Yong (resigned with effect from 8 April 2021)	✓	✓
Mr. ZHU Jianqiu	✓	✓
Mr. YANG Jun (resigned with effect from 8 April 2021)	✓	✓
Mr. PAN Xiaoyong (appointed with effect from 8 April 2021)	N/A	N/A
Mr. ZHANG Xiaolong (appointed with effect from 8 April 2021)	N/A	N/A
Mr. LUO Yongping	✓	✓

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

	Reading Regulatory updates	Training courses provided by hired law firm
Independent Non-Executive Directors Executive Directors		
Mr. Jonathan CHAN Ming Sun	✓	✓
Mr. GAO Xudong	✓	✓
Mr. MENG Qingbin	✓	✓

	Reading Regulatory updates	Training courses provided by hired law firm/ regulatory authorities/ professional associations
Company Secretaries		
Mr. ZHAO Qilin (resigned with effect from 11 December 2021)	✓	✓
Mr. CHENG Ching Kit (the sole company secretary with effect from 11 December 2021)	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE

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

During the year ended 31 December 2020, Mr. ZHAO Yong acted as chairman of the Board and Mr. ZHU Jianqiu acted as president of the Company. As Mr. Zhu serves as both the chairman of the Board and the president with effect from 8 April 2021, such practice deviates from code provision A.2.1 of the CG Code. Although the roles of chairman of the Board and president are performed by the same individual, all major decisions have been made in consultation with members of the Board as well as senior management. The Board has three independent non-executive Directors who offer different independent perspectives. Therefore, the Board is of the view that there is adequate balance of power and safeguards in place.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors is appointed for a twelve-month term, which is renewable automatically with a fixed amount of remuneration per annum. Mr. Jonathan CHAN Ming Sun has served the Group for more than nine years. Pursuant to Code Provision A.4.3 of the CG Code, (a) an independent non- executive Director having served the Company for more than nine years could be relevant to the determination of an independent non-executive Director's independence; and (b) if an independent non-executive Director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by Shareholders and the papers to Shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected. The re-election of Mr. Johnathan CHAN Ming Sun as an independent non-executive Director was approved by the Shareholders at the annual general meeting of the Company held on 17 May 2019. For details of the reasons why the Board believes each of Mr. Johnathan CHAN Ming Sun is still independent and should be re-elected, please refer to the circular of the Company dated 28 March 2019.

All independent non-executive Directors have confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers them to be independent.

BOARD COMMITTEES

The Company has established three Board committees: audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee"). These Board committees comprise of mostly independent non-executive Directors. Each committee operates under its terms of reference which are available on the Company's website or can be obtained from the Company by written request.

AUDIT COMMITTEE

Membership

The members of the Audit Committee are Mr. Jonathan CHAN Ming Sun (Chairman), Mr. GAO Xudong and Mr. MENG Qingbin. All members are independent non-executive Directors and have several years of experience and appropriate professional qualifications to fulfill their duties.

Responsibilities

The primary responsibilities of the Audit Committee include, among other things, making recommendations to the Board on the appointment, re-appointment and removal of external auditors, approving the remuneration and terms of engagement of external auditors, reviewing and monitoring external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, developing and implementing policies on the engagement of external auditors to provide non-audit services, monitoring the financial statements and the completeness of the report and financial statements and overseeing the Company's financial reporting system and internal control procedures. The Audit Committee held regularly meetings at its discretion. Directors and/or senior management may be invited to attend the meeting for discussion.

During the year ended 31 December 2020, the Audit Committee mainly performed the following duties:

— reviewed the Group's unaudited interim results for the six months ended 30 June 2020 and the audited annual results for the year ended 31 December 2019, met with the external auditors to discuss such annual results, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

— reviewed the continuing connected transactions of the Group;

— reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and

— assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year ended 31 December 2020, the Audit Committee held three meetings and the details of attendance was set out on page 16 of this report. The annual results for the year ended 31 December 2020 had been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

Membership

The members of the Remuneration Committee are Mr. Jonathan CHAN Ming Sun (Chairman), Mr. ZHU Jianqiu and Mr. MENG Qingbin. Majority of the members are independent non-executive Directors.

Responsibilities

The primary responsibilities of the Remuneration Committee include, among other things, determining the remuneration packages of all executive Directors and senior management, making recommendations to the Board on the remuneration of non-executive Directors, reviewing and approving performance based remuneration, ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration, and making recommendations to the Board on the Company's policy and structure for remuneration of employees, including salaries, incentive schemes and other stock option plans.

During the year ended 31 December 2020, the Remuneration Committee mainly performed the following duties:

— reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2020.

The Remuneration Committee has adopted the model described in Code Provision B.1.2(c) (ii) of the CG Code (i.e. make recommendation to the Board on the remuneration packages of individual executive Director and Senior Management).

During the year ended 31 December 2020, the Remuneration Committee held one meeting and the details of attendance was set out on page 16 of this report.

NOMINATION COMMITTEE

Membership

The members of Nomination Committee are Mr. ZHU Jianqiu (Chairman), Mr. Jonathan CHAN Ming Sun and Mr. GAO Xudong. Majority of the members are independent non-executive Directors.

Nomination Procedure and Selection Criteria

The nomination committee's nomination of director candidates has adopted the provisions of bye-laws 83, 84 and 85 of the Bye-laws.

Selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The Board has also adopted a board diversity policy. The purpose of the board diversity policy is to set out the basic principles to be followed to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. The Company has been actively looking for a suitable female candidate for Board appointment and will take opportunities to increase the proportion of female members over time. Specifically, the Company will use its best efforts to appoint at least one female Director to the Board within three years following the Transfer of Listing. As of the date of this report, the Board has arranged for the selection of candidates.

Responsibilities

The primary responsibilities of the Nomination Committee include, among other things, reviewing on a regular basis the structure, size and composition of the Board, identifying individual's suitabilities and assessing the independence of the independent non-executive Directors.

During the year ended 31 December 2020, the Nomination Committee mainly performed the following duties:

— assessed the suitabilities of any candidate as a Director, reviewed and recommended the appointment of any candidate;

— reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and

— reviewed the structure, size and composition of the Board during the year of 2020.

The Board has the authority to determine the appointment while the Nomination Committee acted as advisor. During the year ended 31 December 2020, the Nomination Committee had held one meeting and the details of attendance are set out on page 16 of this report.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in Code Provision D.3.1 of the CG Code. During the year ended 31 December 2020, the Board regularly reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and the senior management of the Group, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the required standards of dealing by directors set out in rules 5.48 to 5.67 of the GEM Listing Rules (the "Required Standards of Dealing") or the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code")*, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

REMUNERATION, APPOINTMENT AND ROTATION OF DIRECTORS

The remuneration of senior management consists of performance-linked monthly salary and performance-linked annual bonus. The performance-linked annual bonus is tied to the attainment of key performance indicators or targets. The remuneration of executive Directors is based on the Company's financial position in a fixed sum. The remuneration of independent non-executive Directors is determined by the Board according to the prevailing market conditions and the workload.

Currently, executive Directors are mainly recommended by the substantial Shareholders who have considerable years of experience and expertise in the consumer electronics industry, ICT and services industry, and Enterprise management field whereas for the independent non-executive Directors, independence is most important as well as his/her experience and expertise in finance, law and management. The Nomination Committee, taking into consideration the Listing Rules and structure and composition of the Board, identifies and reviews individuals suitabilities with due care. The Nomination Committee makes recommendations to the Board for its consideration.

All newly-appointed Directors receive a comprehensive induction of fiduciary duties of director to ensure that they have a good understanding of the responsibilities; are fully aware of the Listing Rules, applicable laws and regulations, operation and governance policies of the Company. All newly-appointed Directors are subject to re-election at the next annual general meeting of the Company after their appointment. Every Director is subject to retirement by rotation and be eligible to offer for re-election at annual general meetings of the Company.

* *GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

COMPANY SECRETARIES

During the period from 1 January 2020 to 11 December 2020 (the "Period"), the joint company secretaries of the Company (the "Joint Company Secretary") were Mr. ZHAO Qilin ("Mr. Zhao") and Mr. CHENG Ching Kit ("Mr. Cheng"). Mr. Zhao has tendered his resignation as the Joint Company Secretary and an authorised representative of the Company due to change of work arrangements with effect from 11 December 2020. Mr. Cheng remains in office as the sole company secretary of the Company. For more details, please refer to the announcement of the Company dated 11 December 2020.

Mr. Cheng is a manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specialising in corporate services, and assisted Mr. Zhao in company secretarial affairs during the Period. The primary corporate contact person of Mr. Cheng at the Company was Mr. Zhao during the Period. Since 11 December 2020, Mr. Cheng assists Ms. Feng Yongli ("Ms. Feng"), who is the board secretary of the Company, in company secretarial affairs, and the primary corporate contact person of Mr. Cheng at the Company is Ms. Feng.

MANAGEMENT AND EMPLOYEES

The duty of the management of the Group is to implement the strategy and direction as determined by the Board and to take care of the day-to-day operations of the Company. Management is adhered to certain commercial principles and ethics while performing their duties. The Company strives to continue to improve the operating system and business processes and monitor its implementation.

Pursuant to Code Provision B.1.5, the remuneration of the members of the senior management by remuneration band for the year ended 31 December 2020 is set out below:

Remuneration band	Number of individuals
HK$500 thousand to HK$3,000 thousand	2
Above HK$3,000 thousand	2

Further particulars of Directors' emoluments and the five highest paid individuals discloseable pursuant to Appendix 16 of the Listing Rules are set out in notes 11 to the consolidated financial statements as set out on pages 107 to 110 of this annual report.

DIVIDEND POLICY

The company's dividend declaration and approval are implemented in accordance with bye-laws 133 to 142 of the Bye-laws and the Listing Rules.

In recommending or declaring dividends, the Company shall maintain adequate cash reserves to meet its working capital requirements and future growth as well as its shareholder value.

The Company do not have any pre-determined dividend distribution ratio.

EXTERNAL AUDITOR

The Company engaged Deloitte Touche Tohmatsu ("Deloitte") as auditor of the Company. During the year ended 31 December 2020, the services provided by Deloitte included the audit of consolidated financial statements of the Group and financial statements of its subsidiaries.

The remuneration of the audit service rendered by Deloitte was mutually agreed in view of the scope of services and amounted to HK$2,350,000 and the sum for other non-audit and tax services amounted to HK$220,000 for the year ended 31 December 2020.

Deloitte, as the external auditor of the Company for the year ended 31 December 2019 attended the 2020 annual general meeting of the Company held on 17 May 2020 to respond to any enquiries about the conduct of the audit, the preparation and content of the independent auditor's report and the auditor's independence.

There was no change in auditors of the Company in any of the preceding three years.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board conducts regular reviews on the effectiveness of the risk management and internal control systems on at least an annual basis to ensure that the operation of the Company is legal, the assets of the Company are safeguarded and the financial information that the Company relies on for the operation of its business or for the release to the public are accurate and reliable. Such 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 management of the Group is responsible for establishing and maintaining the risk management and internal control systems for financial reporting. The Company has established a stringent internal control system for financial reporting to eliminate the risks of misstatement, omission and fraud in financial reporting. Meanwhile, with reference to external regulatory requirements, the Company's business development and the internal management procedures, the Company has reviewed the effectiveness of the internal control system for business strategy, finance, operations, marketing, legal compliance and other areas. The Company has established a comprehensive risk management system which integrates internal control and risk management system for the control of business operations with high risks. The Company also conducted assessment on the effectiveness of its internal control and risk management systems for the year ended 31 December 2020. The management of the Group believes that the internal control, risk management and financial reporting systems were effective and adequate and provided reliable financial data in the preparation of financial statements in accordance with generally accepted accounting principles.

All material information related to the Company is disclosed through the leadership of the Board together with the performance of the relevant duties by the management. The Company has performed an annual review of the effectiveness of the disclosure procedures. The Company's disclosure procedures were effective at a reasonable assurance level.

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2020.

CONTINUOUS EVOLVEMENT OF CORPORATE GOVERNANCE

The Company will look into the development of corporate governance practices with reference to the world's leading institutions, relevant regulations by the regulatory bodies and the expectation of the investors. The Company will also review and enhance the corporate governance procedures and practices from time to time so as to ensure the long-term sustainable development of the Company.

CORPORATE SOCIAL RESPONSIBILITY

The Group positions itself as a new ICT comprehensive service company with the corporate business philosophy of "being a good partner to help improvement and support success", and provides highly efficient comprehensive and professional help and support to the domestic and foreign ICT companies, the local channel partners and our customers by leveraging on professional marketing services and solutions, proprietary equipment for proprietary intellectual property rights and diversified products, thereby contributing to the growth and success of our partners and customers and continue to create value for the Shareholders.

The Group focuses on the sustainable development of coordination among the business, the society and the environment. In pursuit of economic efficiency and business development, the Group consciously incorporates social responsibility into our business strategy for an honest and compliant operation, and actively fulfills our social responsibilities and obligations, to achieve the healthy and harmonious developments between the Company and our staff, the Company and the society and the Company and the environment, and continue to create value for the Shareholders.

CORPORATE MISSION

In view of the new layout that emerged in the PRC ICT industry under the new era, the Company will become a listed company with sound profitability focusing on ICT business as its core and the most remarkable marketing company with an objective of establishing a new benchmark for the PRC ICT industry, hence maintaining its sustainable long-term development and creating maximum returns for the Shareholders.

CORPORATE VISION

— To become a remarkable ICT comprehensive service provider under the new era

— To become a remarkable listed company bringing satisfactory returns to the Shareholders

— To become a paradise for the career development of professional managers

CORPORATE GOVERNANCE REPORT

CORPORATE CULTURE

— Targets and results oriented: with clearly defined strategic targets, use the targets to be achieved to plan, figure out the strategies, measures and road maps in accomplishing them and then move forward step by step. Achieve targets through scientific and systemic ways of thinking and focus on results accountability.

— Simple and direct communication: Efficiency is the principle to follow and achieve targets through focused and efficient communications. Be straight to the point, have clear subjects during communication, be targets and results oriented and focus on facts but not individuals.

— Seek for truth, seek for diversity, explore other kinds of possibility: apply rules that are discovered during exploration process, seek for and apply diversity in rules. Establish new thinking model for Chinese ICT distribution enterprises, boldly explore new directions and endeavor to achieve corporate improvement and industry perfection.

DEVELOPMENT STRATEGY

Based on our existing business, we achieve business upgrade and value promotion through system restructuring and service value added and become a comprehensive service provider for professional ICT enterprise distribution and specialized field based on technologies of big data, cloud computing, and artificial intelligence, etc., forging our core competitive edge and achieving the strategic upgrade of our business.

CORPORATE GOVERNANCE

In order to achieve its corporate mission, the Company has established good corporate governance practices based on the principles of integrity, transparency, openness and efficiency, and has implemented and improved various policies, internal controls procedures and other management framework. The Company will continue to learn and understand the development of corporate governance practices with reference to the world's leading institutions, relevant regulations by the regulatory bodies and the expectation of the investors. The Company will also review and enhance the corporate governance procedures and practices from time to time so as to ensure the long-term sustainable development of the Company.

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in Note 37 to the consolidated financial statements.

RESULTS OF OPERATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 62 of this annual report.

FINANCIAL SUMMARY

The financial summary of the Group between 2016 and 2020 is set out on page 147 to 148 under the section of "Five-year Summary of Financial Information" of this annual report.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2020 and a discussion of the Group's future business development and a description of principal risks and uncertainties facing the Company are set out in the Chairman's Statement on pages 7 to 9 of this annual report. An analysis of the Group's performance during the year ended 31 December 2020 using financial key performance indicators is set out in the Group's Five-year Financial Summary on pages 147 to 148 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES FACED BY THE GROUP

The Group's financial conditions, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

The business of the Group is highly dependent on the overall financial condition of the PRC and is affected by seasonality factors. Any market downturn in China generally may adversely affect the Group's business, results of operations and financial position. The Group continues to closely follow the macroeconomic situation and actively cope with the market changes, and try to avoid the operating risks caused by the changes in the macroeconomic situation.

Also, the Group's business relies heavily on a small number of key suppliers and products. Any failure to maintain a good relationship with the suppliers may adversely affect the Group's revenue and profitability as a whole. The Group is committed to helping brand owners explore the market with excellent marketing services, and strives to maintain long-term and close business relations with brand owners. At the same time, the Group will adopt several means, such as introducing new brand owners and new product lines, in a timely manner to expand the scope of business, so as to reduce the degree of dependence on a small number of major suppliers.

Further, in the course of its business, the Group also faces inventory risks if stock levels are not properly monitored and managed, or in the event of any failure to predict sales accurately. The Group continues to strengthen its tracking of market demand information, monitor daily inventory of distributors, and reasonably arrange the incoming purchase from suppliers upstream, with an aim to maintain appropriate inventory level.

Foreign Currency Risk

The Group primarily operates its business in the PRC. The currency in which the Group denominates and settles substantially all of its transactions is Renminbi. Any depreciation of Renminbi would adversely affect the value of any dividends the Group pay to the Shareholders outside of the PRC. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group focuses on the coordinated and sustainable development among the business, the society and the environment. In pursuit of economic efficiency and business development, the Group consciously incorporates social responsibility into our business strategy for an honest and compliant operation, and actively fulfills our social responsibilities and obligations, to achieve the healthy and harmonious development between the Company and our staff, the Company and the society and the Company and the environment, and continue to create value for the shareholders. The Company strictly abides by local and national laws and rules related to environment, actively implements the concept of environmental protection and conservation, and formulates policies and measures for the management of environmental protection. The Group: (1) endeavors to adopt low-carbon methods such as trucks, railways and shipping for transportation of products; (2) installs fresh air equipment in the main office area to regularly inspect and improve the air quality in the office; (3) adopts professional drinking water cleaning and treatment proposals to guarantee the quality of drinking water; regularly replace green plants to build a healthy and clean office environment. The Group also enhances the awareness of energy saving and consumption conservation of its staff through posters and promotional videos, promotes paperless office software and secondary use of printing papers, produces portable notebooks, sends holiday e-cards and prints by swiping cards to reduce paper consumption; (4) increases the use of the renewable energy, solar hot water, while reducing the quantity of official cars and mileage, tries to use the online video conference system or teleconference to reduce business trips, energy consumption and emission of carbon dioxide in active response to the call of the State for environmental protection; (5) installs more energy-saving lighting equipment and intelligent electricity-saving system for air conditioners in offices, which can automatically adjust the turning on and off time and the temperature settings of air-conditioners according to weather conditions; and (6) strictly implements the garbage classification policy, and ensures scrapped electronic products are recycled by the unit qualified for environment-friendly recycling to prevent the environmental pollution.

i Use of electricity — The Group leased offices in 25 cities including Mainland China and Hong Kong. In 2020, the electricity consumption involved 907 tons (2019: 1,006 tons) of carbon emissions, which was an decrease of 9.76% compared with that of last year. In 2020, the Group's per capita electricity consumption involved 0.72 tons of carbon emissions. (The source of carbon emission conversion factors involved in electricity use is the "China's Regional Grid Infrastructure Emission Factors for 2015" promulgated by the Department of Climate Change, National Development and Reform Commission)

ii Use of fuel — The Group owns a few vehicles for employee travel and reception. In 2020, the fuel usage involved carbon emissions of 7.4 tons (2019: 13.9 tons), which was 46.7% lower than that of last year. In 2020, the Group's per capita fuel consumption involved 0.0059 tons of carbon emissions. (The source of carbon emission conversion factors involved in fuel use is the "2006 IPCC (Intergovernmental Panel on Climate Change) National Greenhouse Gas List Guidelines Catalogue", Vehicle Emission Capabilities: 2.2631 Kg/L)

iii Use of paper — The Group's paper usage was 1.04 million in 2020 (2019: 0.95 million), which was a increase of 9.1% compared with that of last year. Mainly due to the increase in business scale in 2020, the number of documents to be printed such as business contracts and bidding documents has increased. The Group continues to implement e-contracting to reduce paper usage.

iv Use of packaging materials — Issues relevant to the use of packaging materials are not applicable to the Group due to the Group's business nature by 2020.

During the year ended 31 December 2020, the Group was subject to various laws and regulations set by the PRC national, provincial and municipal governments relevant to the Group's business operation, including The Company Law of the PRC (《中華人民共和國公司法》), Contract Law of the PRC (《中華人民共和國合同法》) and, Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》). Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year ended 31 December 2020, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS, EMPLOYEES AND OTHER STAKEHOLDERS

The Group believes that maintaining a good relationship with its business partners, customers, suppliers, employees and other stakeholders is important to the Group's business performance and development. Accordingly, the management of the Group has kept good communication, exchanged ideas and shared business updates with the stakeholders when appropriate. The Group also creates a framework for motivating staff and maintaining close relationship with staff. During the year ended 31 December 2020, there were no material and significant disputes between the Group and its customers, suppliers, employees and/or other stakeholders.

REPORT OF THE DIRECTORS

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2020 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 62 to 64 of this annual report.

The Board recommended the payment of final dividend of HK$0.05 per share of the Company (the "Share(s)") in respect of the year ended 31 December 2020 (2019: HK$0.04 per Share), amounting to HK$128,526,000, and there is no arrangement that a Shareholder has waived or agreed to waive any dividend. The final dividend is expected to be paid on Friday, 25 June 2021 to all Shareholders whose name appear on the register of members of the Company at the close of business on Wednesday, 9 June 2021 and is subject to approval by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM").

The declared final dividend for the year ended 31 December 2019 of HK$102,820,800 in total (HK$0.04 per Share) was paid on 19 June 2020.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The AGM is scheduled to be held on Friday, 28 May 2021. The Company's register of members will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, for the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, 24 May 2021.

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The Company's register of members will be closed from Monday, 7 June 2021 to Wednesday, 9 June 2021, both days inclusive, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend of HK$0.05 per Share for the year ended 31 December 2020, if approved at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, 4 June 2021.

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons thereof, are set out in Note 27 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda which would oblige the Company to offer new Shares on a pro rata basis to its existing Shareholders.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTING SECURITIES

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, throughout the year ended 31 December 2020 and as at the latest practicable date prior to the issue of this report, the Company maintained a sufficient public float of at least 25% in the number of issued shares of the Company pursuant to the GEM Listing Rules or Listing Rules*.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company had several reserve accounts available for distribution, in the amount of approximately HK$691.17 million, which may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 31 December 2020, sales to the Group's five largest customers accounted for approximately 40.85% of the total sales for the year and sales to the largest customer included therein amounted to approximately 12.81%. Purchases from the Group's five largest suppliers accounted for approximately 62.34% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 35.51%.

Save as aforesaid, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

REPORT OF THE DIRECTORS

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for the year ended 31 December 2020.

DIRECTORS

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

Executive Directors

Mr. ZHAO Yong (resigned with effect from 8 April 2021)
Mr. ZHU Jianqiu (President, and appointed as Chairman with effect from 8 April 2021)
Mr. YANG Jun (resigned with effect from 8 April 2021)
Mr. PAN Xiaoyong (appointed with effect from 8 April 2021)
Mr. ZHANG Xiaolong (appointed with effect from 8 April 2021)
Mr. LUO Yongping

Independent Non-Executive Directors

Mr. Jonathan CHAN Ming Sun
Mr. GAO Xudong
Mr. MENG Qingbin

In accordance with bye-laws 83 and 84 of the Bye-laws, Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong, Mr. LUO Yongping, and Mr. Jonathan CHAN Ming Sun will retire at the AGM, and, being eligible, will offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical Details of the Directors and the senior management of the Group are set out on pages 4 to 6 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Except for Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong and Mr. LUO Yongping, the Company and each of its Directors (including independent non-executive Directors) has entered into a fixed-term service contract which is renewable automatically per annum. Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong and Mr. LUO Yongping have entered into service contracts with the Company with no fixed term, and are terminable by either party giving not less than one month's written notice or payment in lieu.

Save as aforesaid, none of the Directors proposed for re-election at the AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within the term without payment of compensation, other than statutory compensation.

DONATION

The Group donated HK$500,000 to the Hong Kong Community Chest during the year ended 31 December 2020 (2019: Nil).

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2020.

PERMITTED INDEMNITY AND INSURANCE PROVISIONS

The Bye-laws provide that every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty. Such provisions were in force during the financial year ended 31 December 2020 and remained in force as of the date of this report. The Company has also arranged appropriate directors' and officers' liability insurance in respect of legal action against Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

DIRECTORS' INTERESTS TRANSACTIONS, ARRANGEMENTS AND IN CONTRACTS OF SIGNIFICANCE

No Director had a material interest, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year ended 31 December 2020.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2020, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Capacity	Number of ordinary shares interested *(Note a)*	Approximate percentage of interest
Mr. Zhu Jianqiu ("Mr. Zhu") *(Note b)*	Interest in a controlled corporation	90,165,762 (L)	6.20%

Note:

(a) (L) represents long position.

(b) Among the 90,165,762 ordinary shares of the Company (the "Shares") held by Mr. Zhu, 7,750,000 Shares were held directly and 82,415,762 Shares were held through Typical Faith Limited ("Typical Faith"). As Typical Faith is wholly-owned by Mr. Zhu, Mr. Zhu is deemed to be interested in the Shares held by Typical Faith for the purpose of the SFO.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executives of the Company had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2020 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate. As at the date of this report, the Company has not granted any share options to the Directors.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 31 December 2020, the persons or companies (not being a Director or chief executive of the Company) whose interests or short positions in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed or were notified to the Company and the Stock Exchange pursuant to the provisions under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

Name of substantial shareholders	Capacity	Class of Shares	Number of Shares interested *(Note a)*	Approximate percentage of interest in relevant class of shares *(Note b)*
Sichuan Changhong Electric Co., Limited ("Sichuan Changhong")	Interest of controlled corporation and beneficial owner	Ordinary share Preference share	948,368,000 (L) *(Note c)* 1,115,868,000 (L) *(Note d)*	65.20% 100.00%
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interest of controlled corporation and beneficial owner	Ordinary share Preference share	913,000,000 (L) *(Note e)* 1,115,868,000 (L) *(Note d)*	62.76% 100.00%
Fit Generation Holding Limited ("Fit Generation")	Beneficial owner	Ordinary share Preference share	897,000,000 (L) 1,115,868,000 (L)	61.66% 100.00%
Sichuan Chuantou Assets Management Co., Ltd. ("Chuantou Assets Management") *(Note f)*	Beneficial owner	Ordinary share	83,009,340 (L)	5.70%
Sichuan Provincial Investment Group Company Limited ("Sichuan Provincial Investment Group") *(Note f)*	Interest of controlled corporation	Ordinary share	83,009,340 (L)	5.70%
Typical Faith Limited *(Note g)*	Beneficial owner	Ordinary share	82,415,762 (L)	5.67%

Notes:

(a) (L) represents long position.

(b) The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 31 December 2020, which were 1,454,652,000 and 1,115,868,000, respectively.

(c) Among the 948,368,000 Shares interest held by Sichuan Changhong, 35,368,000 Shares were held directly, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong Hong Kong and 897,000,000 Shares were held through Fit Generation, which is wholly-owned by Changhong Hong Kong. Sichuan Changhong is therefore deemed to be interested in the Shares held by Changhong Hong Kong and Fit Generation for the purpose of the SFO. Sichuan Changhong Holding is the single largest shareholder of Sichuan Changhong, which held approximately 23.22% of the entire issued share capital of Sichuan Changhong and has de facto control over the composition of the majority of the board of Sichuan Changhong.

(d) 1,115,868,000 preference shares of the Company were held by Fit Generation, which is wholly-owned by Changhong Hong Kong, which is a wholly-owned subsidiary of Sichuan Changhong. Each of Sichuan Changhong and Changhong Hong Kong is therefore deemed to be interested in the preference shares of the Company held by Fit Generation for the purpose of the SFO.

(e) Among the 913,000,000 Shares interest held by Changhong Hong Kong, 16,000,000 Shares were held directly and 897,000,000 Shares were held through Fit Generation. As Fit Generation is wholly-owned by Changhong Kong Kong, Changhong Hong Kong is deemed to be interested in the Shares held by Fit Generation for the purpose of the SFO.

(f) Chuantou Assets Management is wholly-owned by Sichuan Provincial Investment Group, which is deemed to be interested in the Shares held by Chuantou Assets Management for the purpose of the SFO.

(g) Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 31 December 2020, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN A COMPETING BUSINESS

Sichuan Changhong is a controlling shareholder of the Company established in the PRC of which shares are listed on the Shanghai Stock Exchange. Sichuan Changhong is principally engaged in the wholesale business of consumer home electronics items under the name of "Changhong".

Save as disclosed above, none of the Directors or the controlling shareholders of the Company or any of their respective close associates (as defined in the GEM Listing Rules or the Listing Rules*) had any business or interest in a business which competes or may compete with the business of the Group and any other conflicts of interest which any person has or may have with the Group during the period under review.

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

COMPLIANCE OF THE DEED OF NON-COMPETITION

As disclosed in the circular of the Company dated 12 December 2012 (the "Circular"), the Company entered into a deed of non-competition (the "Deed of Non-Competition") with Sichuan Changhong, Sichuan Changhong Holding and Fit Generation (collectively, the "Covenantors"), on 7 December 2012, containing certain non-competition undertakings given in favour of the Group, details of which are disclosed in the paragraphs headed "Non-compete Undertakings" in the Circular.

The Company has received confirmations from the Covenantors confirming their compliance with the Non-Competition Deed and agreed to make a declaration on compliance with the Deed of Non-Competition in this Annual Report. The independent non-executive Directors have also reviewed the compliance and enforcement of the Non-Competition Deed, and are of the view that the Covenantors have abided by the undertakings contained in the Deed of Non-Competition for the year ended 31 December 2020.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Saved as the related party transactions disclosed in note 36 to the consolidated financial statements, no controlling Shareholder had a material interest, either directly or indirectly, in any contract of significance (whether for the provision of services to the Company or not) to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2020.

STANDARD OF DEALINGS AND CODE OF CONDUCT FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct for securities transactions before the Transfer of Listing. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' dealings in securities of the Company (the "Code of Conduct") after the Transfer of Listing. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards as set out in the Code of Conduct throughout the year ended 31 December 2020.

CONTINUING CONNECTED TRANSACTIONS

During the year 2020, the following continuing connected transactions were carried out by the Group.

(a) Master Supply Agreement

On 30 December 2019, the Company entered into a framework agreement (the "2020 Master Supply Agreement") with Sichuan Changhong Holding in relation to the supply of IT products such as servers, notebooks, storage devices and network equipment (the "Supply Products") to Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2020 to 31 December 2020 (both days inclusive). In accordance with the 2020 Master Supply Agreement, the Group and the Sichuan Changhong Electric Group entered into individual orders setting out specific terms of each individual purchase of the Supply Products during the year ended 31 December 2020. Pursuant to the 2020 Master Supply Agreement, (i) the price and terms of the individual orders in respect of the supply of the Supply Products by the Group to the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party customers and shall be on terms which are no less favourable to the Group than those provided to independent third party customers; and (ii) payment shall be made by the Sichuan Changhong Electric Group, for project business, in accordance with the payment terms under individual order with reference to the timing of the project business; and for any other trading business, within normal credit period upon the date of invoice. For the year ended 31 December 2020, the transaction amount under the 2020 Master Supply Agreement is subject to a cap of RMB40 million (2019: RMB40 million). On 15 July 2020, the Company entered into the supplemental agreement (the "Supplemental Agreement") with Sichuan Changhong holding to revise the above annual cap of the 2020 Master Supply Agreement to RMB56 million (2019: RMB40 million). Save for the revision of the annual cap, all other terms and conditions of the 2020 Master Supply Agreement remain unchanged. As Sichuan Changhong Holding owns approximately 23.22% equity interest in Sichuan Changhong, a controlling Shareholder, and has control over Sichuan Changhong, both Sichuan Changhong and Sichuan Changhong Holding are controlling Shareholders and hence Sichuan Changhong Holding is a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*. Accordingly, the transactions contemplated under the 2020 Master Supply Agreement and the 2020 Master Supply Agreement as amended by the Supplemental Agreement (the "Amended 2020 Master Supply Agreement") constituted continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*. As the highest of the applicable percentage ratios of the annual caps in respect of the annual transaction amount under the 2020 Master Supply Agreement and Amended 2020 Master Supply Agreement were more than 0.1% but less than 5% respectively, the transactions under the 2020 Master Supply Agreement and Amended 2020 Master Supply Agreement were exempt from independent Shareholders' approval requirements but were subject to announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*.

On 17 November 2020, the Company entered into a framework agreement (the "2021 Master Supply Agreement") with Sichuan Changhong Holding to renew the 2020 Master Supply Agreement, pursuant to which the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2021 to 31 December 2023 (both days inclusive). For the three years ended 31 December 2021, 2022 and 2023, the annual caps for the transaction amounts under the 2021 Master Supply

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

Agreement shall not exceed RMB200 million, RMB220 million, RMB242 million, respectively. As one of the applicable percentage ratios (excluding the profits ratio) under the Listing Rules in respect of the highest annual cap for the transactions contemplated under the 2021 Master Supply Agreement exceeds 5%, the transactions contemplated under the 2021 Master Supply Agreement are subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions have been approved by the independent Shareholders at the Special General Meeting of the Company held on 31 December 2020.

The Directors were of the view that the entering into of the 2020 Master Supply Agreement (including the Supplemental Agreement) and the 2021 Master Supply Agreement by the Company would continue to capitalize on the stable and well-established strategic business relationship with the Sichuan Changhong Electric Group and in turn ensure a stable income source with a committed source of purchase orders from the Sichuan Changhong Electric Group, which in turn would benefit the Group's revenue growth and future development. For details of the 2020 Master Supply Agreement and the 2021 Master Supply Agreement, please refer to the announcements of the Company dated 30 December 2019, 15 July 2020, 17 November 2020, 7 December 2020 and 31 December 2020, and the circular of the Company dated 11 December 2020, respectively.

For the year ended 31 December 2020, the sale made under the Amended 2020 Master Supply Agreement amounted to approximately RMB51.04 million (2019: approximately RMB30.90 million) in total.

(b) Master Purchase Agreement

On 30 December 2019, the Company entered into a framework agreement (the "2020 Master Purchase Agreement") with Sichuan Changhong Holding, in relation to the purchase of software, services and other ancillary products (the "Purchase Products") from the Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2020 to 31 December 2020 (both days inclusive). In accordance with the 2020 Master Purchase Agreement, the Group and the Sichuan Changhong Electric Group entered into individual orders setting out specific terms of each individual purchase of the Purchase Products during the year ended 31 December 2020. Pursuant to the 2020 Master Purchase Agreement, (i) the price and terms of the individual order in respect of the purchase of the Purchase Products shall be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party suppliers and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers; and (ii) payment shall be made by the Company, for project business, in accordance with the payment terms under individual order with reference to the timing of the project business; and for any other trading business, within normal credit period upon the date of invoice. For the year ended 31 December 2020, the transactions amount under the 2020 Master Purchase Agreement was subject to a cap of RMB40 million (2019: RMB40 million). As disclosed above, Sichuan Changhong Holding is a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*. Accordingly, the transactions contemplated under the 2020 Master Purchase Agreement constituted continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*. As the highest of the applicable percentage ratios of the annual cap in respect of the annual transaction amount under the 2020 Master Purchase Agreement was more than 0.1% but less than 5%, the transactions under the 2020 Master Purchase Agreement were exempt from independent Shareholders' approval requirements but were subject to announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*.

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

On 17 November 2020, the Company entered into a framework agreement (the "2021 Master Purchase Agreement") with Sichuan Changhong Holding to renew the 2020 Master Purchase Agreement, pursuant to which the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2021 to 31 December 2023 (both days inclusive). For the three years ending 31 December 2021, 2022 and 2023, the annual caps for the transaction amounts under the 2021 Master Purchase Agreement shall not exceed RMB40 million, RMB44 million, RMB47.9 million, respectively.

The Directors were of the view that the entering into of the 2020 Master Purchase Agreement and the 2021 Master Purchase Agreement by the Company would enhance the diversification of products to be supplied to the Group. Taking into consideration that the Group has a stable and well-established strategic business relationship with the Sichuan Changhong Electric Group, Sichuan Changhong Electric Group has a deep understanding as to the specifications of the products required by the Group, the entering of the 2020 Master Purchase Agreement and the 2021 Master Purchase Agreement would support the stable growth and expansion of the business of the Group, which in turn would benefit the Group's revenue growth and future development. For details of the 2020 Master Purchase Agreement and the 2021 Master Purchase Agreement, please refer to the announcements of the Company dated 30 December 2019 and 17 November 2020, and the circular of the Company dated 11 December 2020, respectively.

For the year ended 31 December 2020, the purchase made under the 2020 Master Purchase Agreement amounted to approximately RMB6.45 million (2019: approximately RMB5.41 million) in total.

(c) Financial Services Agreement

On 27 November 2017, Changhong IT entered into a financial services agreement (the "2018 Financial Services Agreement") with Sichuan Changhong Group Finance Company, Limited (四川長虹集團財務有限公司) ("Changhong Finance"), pursuant to which Changhong Finance agreed to provide financial services including (1) deposit services; (2) loan services; and (3) settlement services (collectively, the "Financial Services") to Changhong IT.

The 2018 Financial Services Agreement has a fixed term from 1 January 2018 and ending on 31 December 2020 (both dates inclusive). Pursuant to the 2018 Financial Services Agreement, (i) in relation to the deposit services, the interest rate applicable to any deposits made available to Changhong Finance will be determined in the ordinary course of business and shall not be less than (a) the minimum interest rate prescribed by the People's Bank of China ("PBOC") at such relevant time, and (b) the interest rate available to Changhong IT from other major commercial banks in the PRC independent to Changhong IT in respect of the same type of deposits; (ii) in relation to the loan services, the interest rate of the loans to be granted by Changhong Finance to Changhong IT will be determined in the ordinary course of business and shall not be higher than (a) the maximum interest rate prescribed by PBOC at such relevant time; and (b) the interest rate charged against Changhong IT by other major commercial banks in the PRC independent to Changhong IT in respect of the same type of loans; and (iii) in relation to the settlement services to Changhong IT, the settlement service fees to be charged by Changhong Finance will be determined in the ordinary course of business and shall not exceed the fees charged by other settlement services providers independent to Changhong IT in respect of the same type of settlement services.

As the deposit interest rates and the lending rates offered by Changhong Finance to Changhong IT would be equal to or more favorable to Changhong IT than those offered by independent commercial banks in the PRC to Changhong IT for comparable deposits or, as the case may be, loans, the 2018 Financial Services Agreement is therefore expected not only to provide Changhong IT with new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. Changhong IT is also expected to be in a better position to manage the security of its funds since it is not considered to be exposed to any significant capital risk. For details of the 2018 Financial Services Agreement, please refer to the announcement of the Company dated 27 November 2017 and the circular of the Company dated 11 December 2017.

Changhong Finance is a company owned as to 50% by Sichuan Changhong, the controlling shareholder of the Company and 50% by Sichuan Changhong Holding, a company which holds approximately 23.22% of the equity interest of Sichuan Changhong. Accordingly, Changhong Finance is an associate of a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*, and accordingly the transactions contemplated under the 2018 Financial Services Agreement constitute continuing connected transactions of the Company for the purpose of the GEM Listing Rules or the Listing Rules*. As the highest of the applicable percentage ratios of the annual caps in respect of the deposit services under the 2018 Financial Services Agreement exceeds 5% on an annual basis, the deposit services under the 2018 Financial Services Agreement and the annual caps constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*.

The loan services under the 2018 Financial Services Agreement constitute financial assistance provided by a connected person. As such loan services would be provided on normal commercial terms or on terms which shall be more favorable to Changhong IT and would not be secured by the assets of the Group, the loan services under the 2018 Financial Services Agreement are exempt from announcement, reporting, annual review and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*.

As the highest of the applicable percentage ratios of the proposed annual caps in respect of the settlement services under the 2018 Financial Services Agreement is less than 5%, such settlement services are exempt from circular and independent Shareholders' approval requirements but are subject to announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*.

The 2018 Financial Services Agreement and the transactions contemplated thereunder, together with the annual caps (being the maximum daily outstanding balance of deposits to be placed by Changhong IT and its subsidiaries with Changhong Finance, the maximum daily outstanding balance of loans to be granted by Changhong Finance and the maximum service fees for the settlement services to be provided by Changhong Finance under the 2018 Financial Services Agreement), for the three years ending 31 December 2018, 2019 and 2020 were approved by the independent Shareholders at the special general meeting of the Company held on 29 December 2018.

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

For the year ended 31 December 2020, the Financial Services were subject to the annual caps and the actual transaction amounts for each of the Financial Services are as follows:

	Deposit service — Maximum daily outstanding balance of deposits to be deposited by Changhong IT with Changhong Finance *(RMB'000 per day)*	Loan service — Maximum daily outstanding balance of loans to be granted by Changhong Finance to Changhong IT *(RMB'000 per day)*	Settlement service — Maximum service fees for the settlement services to be provided by Changhong Finance to Changhong IT *(RMB'000)*
Annual cap for the year ended 31 December 2020	800,000	800,000	5,000
Actual transaction amount for the year ended 31 December 2020	712,569	750,000	11

The 2018 Financial Services Agreement expired on 31 December 2020. On 17 December 2020, Changhong IT entered into a financial services agreement (the "2021 Financial Services Agreement") with Changhong Finance, pursuant to which Changhong Finance agreed to provide Financial Services to Changhong IT. The 2021 Financial Services Agreement and the transactions contemplated thereunder, together with the annual caps (being the maximum daily outstanding balance of deposits to be placed by Changhong IT and its subsidiaries with Changhong Finance, the maximum daily outstanding balance of loans to be granted by Changhong Finance and the maximum service fees for the settlement services to be provided by Changhong Finance under the 2021 Financial Services Agreement), for the three years ending 31 December 2021, 2022 and 2023 were approved by the independent Shareholders at the special general meeting of the Company held on 31 December 2020. For details of the 2021 Financial Services Agreement, please refer to the announcement of the Company dated 17 November 2020, 7 December 2020 and 31 December 2020 and the circular of the Company dated 11 December 2020.

The annual caps for the Financial Services under the 2021 Financial Services Agreement for each of the three years ending 31 December 2021, 2022 and 2023 are as follows:

	Annual cap for the year end 31 December		
	2021	2022 (RMB'000)	2023
Maximum daily outstanding balance of deposits to be deposited by Changhong IT with Changhong Finance (including interest accrued and handing fees thereon)	1,500,000	2,000,000	2,500,000
Maximum daily outstanding balance of loans to be Granted by Changhong Finance to Changhong IT (including interest accrued and handling fees thereon)	1,500,000	2,000,000	2,500,000
Maximum service fees for the settlement services to be provided by Changhong Finance to Changhong IT	2,500	2,500	2,500

(d) House Leases Agreements

On 4 May 2017, the Group entered into the following leases (collectively the "Leases"): (1) Changhong IT entered into a lease agreement (the "2017 Changhong IT Lease") with Beijing Changhong Technology Company Limited* (北京長虹科技有限責任公司) ("Beijing Changhong") in relation to the leasing of certain premises in Beijing, which be used by Changhong IT as its office; (2) Changhong IT Chengdu, a branch office of Changhong IT, entered into a lease agreement (the "Changhong IT Chengdu Lease") with Chengdu Changhong Electronic Technology Company Limited* (成都長虹科技有限公司) ("Chengdu Changhong") in relation to the leasing of certain premises in Chengdu, which be used by Changhong IT Chengdu as its office; and (3) Changhong IT Intelligence entered into a lease agreement (the "Changhong IT Intelligence Lease") with Chengdu Changhong in relation to the leasing of certain premises in Chengdu, which be used by Changhong IT Intelligence as its office.

Beijing Changhong and Chengdu Changhong are owned as to 48.98% and 99.95%, respectively, by Sichuan Changhong, a controlling shareholder of the Company. Hence, each of Beijing Changhong and Chengdu Changhong is an associate of Sichuan Changhong and a connected person of the Company. Accordingly, the entering into of the Leases constitutes continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*.

Pursuant to Rule 20.79 of the GEM Listing Rules, the proposed annual caps of the continuing connected transactions contemplated under the Leases will be aggregated for the purpose of calculating the percentage ratios. As one or more of the applicable percentage ratios in respect of the proposed annual caps in respect of the annual transaction amount under the Leases (on an aggregated basis) are more than 0.1% and less than 5%, the entering into of the Leases is exempted from the circular (including independent financial advice) and Shareholders' approval requirements, but are subject to announcement, annual reporting and annual review requirements under Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules*. For details of the aforementioned Leases, please refer to the announcements of the Company dated 4 May 2017 and 5 May 2017.

Since 1 December 2018, as the offices of Changhong IT Chengdu and Changhong IT Intelligence in Chengdu have been provided by an independent third party, the Changhong IT Chengdu Lease and the Changhong IT Intelligence Lease have been terminated on 30 November 2018.

As the 2017 Changhong IT Lease expired on 31 May 2020, on 22 May 2020, Changhong IT entered into a lease agreement (the "2020 Changhong IT Lease") with Beijing Changhong in relation to the leasing of certain premises in Beijing, which be used by Changhong IT as its office, to renew the leasing of premises under the 2017 Changhong IT Lease.

As one or more of the applicable percentage ratios in respect of the proposed annual caps in respect of the annual transaction amount under the 2020 Changhong IT Lease (on an aggregated basis) are more than 0.1% and less than 5%, the entering into of the 2020 Changhong IT Lease is exempted from the circular (including independent financial advice) and Shareholders' approval requirements, but are subject to announcement, annual reporting and annual review requirements under Chapter 14 of the Listing Rules*. For details of the 2020 Changhong IT Lease, please refer to the announcement of the Company dated 22 May 2020.

The Directors are of the view that it is in the interest of the Company to enter into the Leases in order to provide the Group with stable and necessary office premises for its business operation.

The Directors are of the view that the Leases and the transactions contemplated thereunder (including the proposed annual caps) were entered into on normal commercial terms in the ordinary and usual course of business of the Company after arm's length negotiations, and the terms of the Leases and the transactions contemplated thereunder are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

For the year ended 31 December 2020, the 2020 Changhong IT Lease was subject to the annual cap and the actual transaction amount for the Changhong IT Lease are as follows:

	2020 Changhong IT Lease *(RMB'000)*
Annual cap for the year ended 31 December 2020	5,028
Actual transaction amount for the year ended 31 December 2020	4,789

(e) The VIE Agreements

On 12 April 2019, the WFOE, the OPCO and Sichuan Changhong Holding (the "PRC Equity Owner") entered into the VIE Agreements to establish a variable interest entity (VIE) structure (the "VIE Structure"). Through the VIE Agreements, the WFOE will have effective control over the finance and operation of the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO. The financial results of the OPCO will be consolidated into the consolidated financial statements of the Group as if the OPCO is a wholly-owned subsidiary of the Company.

A brief description of each of the specific agreements that comprise the VIE Agreements entered into between the WFOE and the PRC Equity Owner and OPCO is set out as follows:

(1) The Exclusive Purchase Right Agreement

The PRC Equity Owner irrevocably grants the WFOE an exclusive right, to be exercised according to the WFOE's discretion, at any time in one instance or across multiple instances, to purchase all or part of the PRC Equity Owner's equity interests in the OPCO at the lowest price permissible under applicable PRC laws and regulations at the time. The WFOE may elect to satisfy the purchase price by setting off outstanding amounts under the Loan Agreement (described below).

(2) The Loan Agreement

The WFOE shall provide a non-interest bearing loan in an aggregate amount of RMB60 million to the PRC Equity Owner, of which (i) RMB2 million will go towards the PRC Equity Owner's initial contribution to the paid-up capital to the OPCO, to be drawn down within 5 business days from the day that the Loan Agreement becomes effective, and (ii) the remaining RMB58 million will be used for the PRC Equity Owner's future contribution to the OPCO's paid-up capital, to be drawn down within three (3) years from the day that the Loan Agreement becomes effective.

(3) The Equity Pledge Agreement

The PRC Equity Owner agrees to pledge all of its shares in the OPCO to the WFOE to secure the Contractual Obligations and the Guaranteed Liabilities. The equity pledge will be effective from registration of the pledged equity with the corresponding industrial and commercial administration until all of the PRC Equity Owner and the OPCO's obligations under the VIE Agreements (as the case may be) (the "Contractual Obligations") are performed in full and all losses suffered by the WFOE in relation to breaches of the VIE Agreement by the PRC Equity Owner or the OPCO (the "Guaranteed Liabilities") have been paid in full.

(4) The Exclusive Consultancy and Services Agreement

The WFOE shall provide the OPCO with exclusive consultancy and services, including but not limited to:

(i) Consultancy as to the corporate management and business strategy of the OPCO; (ii) Consultancy as to setting good business standards and practices; (iii) Consultancy as to research and marketing strategies; (iv) Technical consultancy as to server maintenance and network platform operation; (v) Research, development, maintenance and update services in relation to key business software; (vi) Leasing computers, other office materials, and relevant operational equipment to the OPCO; (vii) Providing brand promotion and marketing services; (viii) Providing technical training and support to employees of the OPCO; (ix) Granting the OPCO the right to use the intellectual property of the WFOE; (x) Providing personnel support upon the OPCO's request; and (xi) Other services as agreed between the WFOE and the OPCO. The OPCO shall pay to the WFOE on a quarterly basis, a service fee that is equal to 100% of the total before-income-tax consolidated profits of the OPCO after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes.

(5) The Business Cooperation Agreement

The PRC Equity Owner undertakes to the WFOE that it shall, and shall procure the OPCO to: (i) Prudently and effectively operate the OPCO's value-added telecommunications business in accordance with good financial and business standards and usual practices; (ii) Follow the WFOE's instructions when formulating the OPCO's development plan and annual work plan; (iii) Develop value-added telecommunications business and other relevant business under the assistance of the WFOE; (iv) Follow the suggestions, opinions, rules and other guidance in carrying out the daily operation and financial management; (v) Follow the WFOE's instructions and suggestions in appointing directors and supervisors of the OPCO; (vi) Follow the WFOE's instructions and suggestions in relation to the recruitment and dismissal of the senior management and employees of the OPCO; (vii) Accept suggestions, guidance and proposals raised by the WFOE in relation to business development; (viii) Carry out the value-added telecommunications business and update and maintain the necessary qualification certificates, including but not limited to the ICP License; and (ix) Perform the obligations under the VIE Agreements.

(6) Power of Attorney

The PRC Equity Owner irrevocably authorizes the WFOE (and its successors (including a liquidator replacing the WFOE, if any) to exercise the following shareholder rights: (i) Convening, attending and participating in shareholders' meetings of the OPCO, receiving relevant notices or documents relating to the shareholders' meetings; (ii) Representing the PRC Equity Owner to exercise voting rights in all matters requiring shareholder's discussion and resolution, including but not limited to nominating and appointing directors, supervisors, the general manager and other senior management positions that shall be decided by shareholders; (iii) Signing and delivering any written resolutions and minutes of shareholders' meetings of the OPCO and any other documents required to be signed by the shareholders of the OPCO, and submitting documents to relevant industrial and commerce administration for filing purposes; (iv) other shareholders' voting rights under the articles of association of the OPCO (including any shareholders' voting rights adopted after amendments to the articles of association of the OPCO) under the laws of the PRC; (v) Selling, transferring, pledging or disposing of the shares in the OPCO; (vi) Approving the register of new shareholders or the exit of the existing shareholder of the OPCO; (vii) Directing directors and the legal representative of the OPCO to perform their duties as requested; (viii) Supervising the economic performance of the OPCO; (ix) Exercising full usage rights of the OPCO's financial information; (x) Instituting any legal proceedings or taking any legal action against the OPCO's directors or shareholders who act against the interest of the OPCO and its shareholders; (xi) Approving the annual budget; (xii) Managing or disposing of the assets of the OPCO; (xiii) Exercising full rights to control and manage the finance, accounting and daily operation of the OPCO; (xiv) Approving any documents that have to be submitted to the relevant government departments or supervising authorities for filing purpose; and (xv) Exercising all other shareholders' rights under laws and regulations and the OPCO's articles of association.

(7) The Intellectual Property Rights Authorisation Agreement

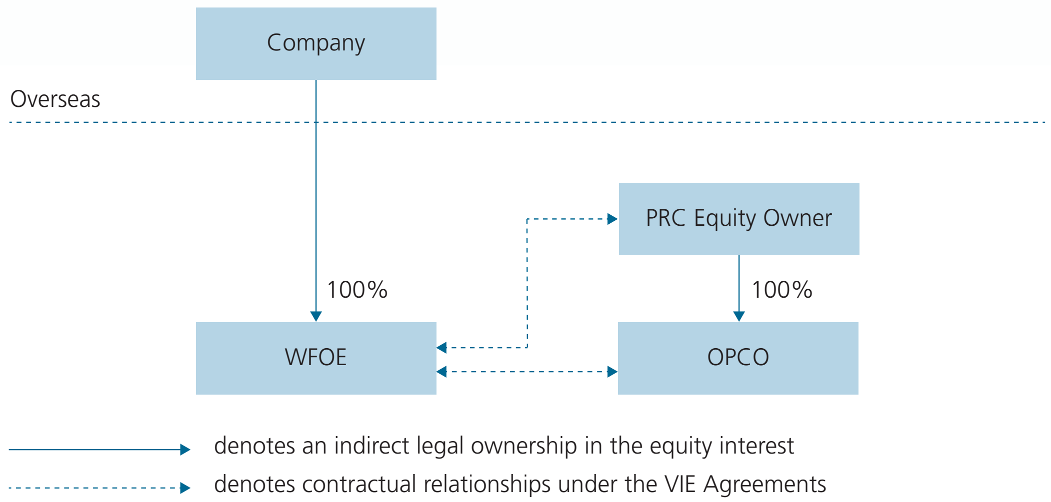
The WFOE agrees to grant to the OPCO the non-exclusive, non-sublicensable, non-transferrable right to use certain intellectual property rights in the PRC in relation to the Platform. The OPCO may only use such intellectual property rights in operating a value added telecommunications business.

(8) The Commitment Letter

The PRC Equity Owner irrevocably undertakes and confirms to the WFOE that:

(i) pursuant to the Exclusive Purchase Right Agreement, the WFOE has an exclusive right to purchase all of the PRC Equity Owner's interests in the OPCO at the agreed price; (ii) pursuant to the Equity Pledge Agreement, if there is any dividend or bonus generated by the pledged equity during the term of the Equity Pledge Agreement and while the VIE Agreements continue to be effective, such dividend or bonus generated shall be returned to the WFOE; (iii) pursuant to the Exclusive Consultancy and Services Agreement, the OPCO shall pay to the WFOE a service fee that is equal to 100% of the total before-income-tax consolidated profits of the OPCO, after deducting the previous year's losses (if any), necessary operational costs, expenses and taxes; (iv) pursuant to the Exclusive Consultancy and Services Agreement, the WFOE may adjust the scope and amount of the service fee according to PRC tax law and tax practices and the PRC Equity Owner shall induce the OPCO to accepting such adjustments. The WFOE has the right to calculate the service fee on a quarterly basis and issue a corresponding invoice to the OPCO. The WFOE may adjust the payment time and payment method, and the OPCO will unconditionally accept such adjustments; (v) the PRC Equity Owner will not directly or indirectly through any person or entity, participate in, carry out, acquire or hold any interest in any business which is or may be in competition with the OPCO, WFOE and WFOE's affiliates, and shall not do anything which gives rise to any conflict of interest in relation to the operation of the OPCO between the PRC Equity Owner and the WFOE. In the event of any conflict of interests as mentioned above between the PRC Equity Owner and the WFOE, the PRC Equity Owner will take any actions as instructed by the WFOE to eliminate such conflict provided that such action is compliant with the applicable laws; (vi) no conflict of interest exists in relation to the PRC Equity Owner's authorization of the WFOE (and its successors (including a liquidator replacing the WFOE (if any)) to exercise OPCO shareholder rights under the Power of Attorney; and (vii) if the PRC Equity Owner is ordered to be dissolved, is abolished, is closed, declares bankruptcy or for other reasons its capacity as an entity ceases to exist, the PRC Equity Owner shall use all efforts to procure that the PRC Equity Owner's successor (including, but not limited to a liquidator replacing the PRC Equity Owner (if any) or other entity that succeeds the PRC Equity Owner's obligations due to the above situations) continues to perform the PRC Equity Owner's obligations under the VIE Agreements.

The following diagram sets out the VIE Structure:



As at the date of the agreements, the PRC Equity Owner holds approximately 23.22% equity interest in Sichuan Changhong, the controlling shareholder of the Company. Sichuan Changhong and the PRC Equity Owner are controlling shareholders of the Company under the GEM Listing Rules*, and accordingly the transactions contemplated under the VIE Agreements (excluding the Loan Agreement) constitute continuing connected transactions and the transactions contemplated under the Loan Agreement constitute connected transactions for the Company for the purpose of the GEM Listing Rules*. Accordingly, the transactions contemplated under the VIE Agreements are subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules and Chapter 14A of the Listing Rules*.

As one or certain of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the transactions contemplated under the Loan Agreement exceeds 5% but all of them are less than 25%, the transactions contemplated under the Loan Agreement are subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules and Chapter 14 of the Listing Rules*.

In relation to the VIE Agreements (excluding the Loan Agreement), the Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 20.100 of the GEM Listing Rules from (i) fixing their terms for a period of not exceeding three years pursuant to Rule 20.50 of the GEM Listing Rules (or Rule 14A.52 of the Listing Rules)* and (ii) setting maximum aggregate annual caps pursuant to Rule 20.51 of the GEM Listing Rules (or Rule 14A.53 of the Listing Rules)* for the services fees payable by the OPCO to the WFOE under the Exclusive Consultancy and Services Agreement subject to conditions.

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

The VIE Agreements had been approved by the shareholders at the special general meeting of the Company held on 17 May 2019. For further details, please refer to the announcements of the Company dated 12 April 2019 and 17 May 2019, and the circular of the Company dated 30 April 2019.

For the year ended 31 December 2020, WFOE provided a loan in amount of RMB20 million (up to RMB60 million) to Sichuan Changhong Holding in accordance with the loan agreement under the VIE Agreements. The investment amount of the Sichuan Changhong Holding in OPCO was RMB20 million. Sichuan Changhong Holding had pledged all the equity interests in OPCO to WFOE in accordance with the equity pledge agreement. OPCO lost approximately RMB7.43 million in 2020, hence the amount of service fees payable by OPCO to the WFOE under the Exclusive Consultancy and Services Agreement was nil. As at 31 December 2020, OPCO's total assets amounted to approximately RMB15.07 million.

Reasons for Adopting the VIE Structure

To expand the Group's e-commerce business, the Group established a new business-to-business e-commerce platform (the "Platform") through the OPCO, which connects third-party merchants with each other. These third party merchants include, among others, upstream and downstream secondary distributors, resellers and manufacturers in the ICT industry.

The Platform allows third-party merchants to establish their own online shops within the Platform, and third- party merchants will be able to buy and sell their products amongst each other. In return for access to the Platform, these third-party merchants will pay fees to the Group for secured transaction payment services and interaction mechanism services, for assistance to third-party merchants in their interactions with each other, as well as for other value-added services like financial, marketing and big data analysis services.

Pursuant to the PRC Laws, an ICP license is necessary before commercial third-party merchants may join the Platform. As the OPCO has obtained an ICP License, the Company decided to operate the Platform through the OPCO. A company held more than 50% by foreign investors cannot hold an ICP License, and as a result, the WFOE and its subsidiaries are not eligible to apply for such a license.

In order to comply with PRC Laws, the VIE Agreements were entered into among the WFOE, the OPCO and the PRC Equity Owner. Through the VIE Agreements, the WFOE will have effective control over the finances and operations of the e-commerce business of the Platform under the OPCO and will enjoy the entire economic interests and benefits generated by the OPCO despite the lack of registered equity ownership.

The Board is of the view that the VIE Agreements are narrowly tailored to achieve the OPCO's business purpose and to minimize the potential conflicts and are enforceable under the relevant PRC Laws. The VIE Agreements enable the WFOE to gain control over the OPCO, and to be entitled to the economic interests and benefits of the OPCO. Pursuant to the relevant provisions of the VIE Agreements, the WFOE has the right to unwind the VIE Structure as soon as the relevant PRC Laws allow the WFOE to register itself as the shareholder of the OPCO. The Directors further believe that save as disclosed, the VIE Agreements are enforceable under the relevant PRC Laws, and that the VIE Agreements will provide a mechanism that enables the WFOE to exercise effective control over the OPCO.

Risk Factors in Relation to the VIE Agreements

The Company considers that the following risks are associated with the VIE Agreements:

- The Group may bear economic risks which may arise from difficulties in the operation of the OPCO
- Interference or encumbrance from governing bodies and PRC government may determine that the VIE Agreements do not comply with applicable regulations
- Limitations and substantial costs in exercising the option to acquire ownership of the OPCO to the Group under the Exclusive Purchase Right Agreement
- The VIE Agreements may not be as effective as direct ownership in providing control over the OPCO
- The PRC Equity Owner may potentially have a conflict of interests with the Group
- The VIE Agreements may be subject to scrutiny of the PRC and additional tax may be Imposed
- The Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder.
- Certain terms of the VIE Agreements may not be enforceable under PRC Laws

Further details of these risks are set out in the section headed "RISK FACTORS IN RELATION TO THE VIE AGREEMENTS" on pages 29 to 32 of the circular of the Company dated 30 April 2019.

The Group has adopted the following measures to mitigate the above risks in relation to the VIE Agreements:

- major issues arising from the implementation and compliance with the VIE Agreements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- the Board will review the overall performance of and compliance with the VIE Agreements at least once a year;
- the Company will disclose the overall performance and compliance with the VIE Agreements in its annual reports; and
- the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the VIE Agreements, review the legal compliance of WFOE and the OPCO Group to deal with specific issues or matters arising from the VIE Agreements.

Confirmation of Independent Non-executive Directors in relation to the VIE Agreements

The independent non-executive Directors have reviewed the VIE Agreements and confirmed that for the year ended 31 December 2020:

(i) the transactions carried out during the year have been entered into in accordance with the relevant provisions of the VIE Agreements, have been operated so that the revenue generated by the OPCO Group has been substantially retained by the WFOE;

(ii) no dividends or other distributions have been made by the OPCO to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

(iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO Group during the year are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.

Confirmation of Independent Non-executive Directors in relation to the Continuing Connected Transactions

The independent non-executive Directors have reviewed the above continuing connected transactions of the Company and confirmed that such transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal or better commercial terms which are not less favorable to the Group than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation from Auditor of the Company in relation to the Continuing Connected Transactions

Deloitte Touche Tohmatsu, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu has issued its unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in connection with the Master Supply Agreement, the Master Purchase Agreement, the Financial Services Agreement, the House Leases Agreements, the Equity Pledge Agreement, and the Exclusive Consultancy and Services Agreement for the year ended 31 December 2020 in accordance with the Listing Rule14A.56, with an emphasis of matter paragraph in relation to the fact that the Company is not required to establish and announce an annual cap in respect of the continuing connected transactions in connection with the Equity Pledge Agreement and the Exclusive Consultancy and Services Agreement for the year ended 31 December 2020. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

RELATED PARTY TRANSACTIONS

All of the related party transactions undertaken during the year ended 31 December 2020 as disclosed in note 36 to the consolidated financial statements in this annual report fall under the definition of "connected transactions" under the GEM Listing Rules or the Listing Rules*. The Company has complied with the disclosure requirements set out in Chapter 20 of the GEM Listing Rules or Chapter 14A of the Listing Rules *.

AUDITORS

The financial statements of the Group for the year ended 31 December 2020 were audited by Deloitte Touche Tohmatsu who shall retire at the forthcoming AGM and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

ZHAO Yong *(resigned on 8 April 2021)*
Chairman and Executive Director

Hong Kong
30 March 2021

* *The GEM Listing Rules was applicable to the Company prior to the Transfer of Listing. Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.*

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE SHAREHOLDERS OF CHANGHONG JIAHUA HOLDINGS LIMITED
長虹佳華控股有限公司
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Changhong Jiahua Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 62 to 146, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories	
We identified valuation of the inventories as a key audit matter due to the significance of the amount to the consolidated financial statements and the low gross profit margin of the Group's products. The inventories mainly represent electronic products for which the product life cycle is relatively short and gross profit margin is relatively low. In addition, significant management estimates and judgements are involved in determining the net realisable value of the inventories. As disclosed in Notes 10 and 21 to the consolidated financial statements, allowance for inventories of approximately HK$46,870,000 has been recognised during the year ended 31 December 2020 and the carrying value of inventories was approximately HK$3,131,603,000 (net of allowance for inventories of approximately HK$84,340,000) as at 31 December 2020, which represents 29% of the total assets of the Group. The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. The management of the Group reviewed the inventory aging report at the end of the reporting period to identify inventories that are no longer saleable in the market and estimated the net realisable value for those items based primarily on the latest invoice prices and current market conditions.	Our procedures in relation to the valuation of the inventories included: • Understanding the relevant internal control procedures regarding obsolete/damaged stocks, inventory costs and inventory counts that are periodically performed by the management; • Performing physical observation of the inventories as at year end to identify inventories that may be required to be included in the assessment of the allowance for inventories; • Testing the cost of inventories, on a sample basis, against source documents; • Obtaining the inventory aging report to identify long aged inventories and assessing whether allowance for inventories was properly provided for; and • Comparing the costs of long aged inventories with subsequent sales invoices on a sample basis.

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
We identified the recoverability of trade receivables as a key audit matter due to the significance of the amount to the consolidated financial statements and the significant judgment involved in determining the provision of expected credit losses. As disclosed in Notes 10 and 34 to the consolidated financial statements, net impairment loss on trade receivables of approximately HK$19,114,000 has been recognised during the year ended 31 December 2020 and the carrying amount of the Group's trade receivables was approximately HK$3,110,036,000 (net of allowance for credit losses of approximately HK$46,538,000). The Group has applied the simplified approach to measure the loss allowance at life time expected credit loss. Except for debtors that are credit-impaired, the Group determines the expected credit loss based on aging analysis. The estimated loss rates are estimated based on historical observed default rates over the expected life of debtors and are adjusted for forward-looking information.	Our procedures in relation to the recoverability of trade receivables included: • Obtaining an understanding of management's process of assessing the expected credit losses of trade receivable, including the use of provision matrix; • Evaluating the reasonableness of management's determination of the provision rates; • Assessing the reasonableness of the historical default rates applied in the provision matrix; • Testing the accuracy of management's calculation of the expected credit losses of trade receivables; • Obtaining the aging report of trade receivables to test aging report of the trade receivables, on a sample basis, to the source documents; and • Testing subsequent settlements of trade receivables, on a sample basis, by inspecting supporting documents in relation to receipts from trade debtors subsequent to the end of the current reporting period.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are 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 Section 90 of the Bermuda Companies Act, 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

We communicate with those charged with governance 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 those charged with governance 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, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in the independent auditor's report is Tsang Kai Tai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	NOTES	2020 HK$'000	2019 HK$'000
Revenue	5	**40,381,301**	29,999,669
Cost of sales		**(39,302,538)**	(29,040,470)
Gross profit		**1,078,763**	959,199
Other income	7	**68,657**	52,711
Distribution and selling expenses		**(363,873)**	(328,253)
Research and development expenses		**(24,557)**	(13,509)
Administrative expenses		**(180,176)**	(168,480)
Finance costs	8	**(144,130)**	(85,411)
Impairment loss on trade receivables, net		**(19,114)**	(7,705)
Exchange loss, net		**(93)**	(6,601)
Profit before tax		**415,477**	401,951
Income tax expenses	9	**(70,079)**	(112,785)
Profit for the year attributable to the owners of the Company	10	**345,398**	289,166
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Exchange differences arising from translation of consolidated financial statements to presentation currency		**166,783**	(46,501)
Total comprehensive income for the year attributable to owners of the Company		**512,181**	242,665
Earnings per share			
Basic and diluted *(HK cents)*	13	**13.44**	11.25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	**2020** **HK$'000**	2019 *HK$'000*
Non-current assets			
Plant and equipment	*14*	**5,726**	18,326
Intangible assets	*15*	**18,484**	28,404
Right-of-use assets	*16*	**12,599**	2,946
Financial asset at fair value through profit or loss	*17*	**30,666**	30,699
		67,475	80,375
Current assets			
Inventories	*21*	**3,131,603**	2,115,395
Trade receivables	*18*	**3,110,036**	2,087,415
Bills receivables at fair value through other comprehensive income	*19*	**418,414**	381,023
Tax recoverable		**4,065**	–
Prepayments, deposits and other receivables	*20*	**119,196**	93,935
Amounts due from related companies	*36(b)*	**13,530**	19,084
Trade deposits paid		**808,048**	771,271
Pledged bank deposits	*22*	**2,917,765**	1,022,483
Bank balances and cash	*22*	**369,591**	711,740
		10,892,248	7,202,346
Current liabilities			
Trade and bills payables	*23*	**5,622,316**	3,633,152
Other payables	*24*	**331,711**	309,237
Tax payables		**26,723**	14,857
Borrowings	*29*	**2,195,451**	1,005,285
Amounts due to related companies	*36(b)*	**15,878**	6,412
Contract liabilities	*25*	**444,244**	409,903
Lease liabilities	*26*	**8,800**	3,058
		8,645,123	5,381,904
Net current assets		**2,247,125**	1,820,442
Total assets less current liabilities		**2,314,600**	1,900,817

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 HK$'000	2019 HK$'000
Non-current liabilities			
Government grants	31	**1,766**	1,946
Lease liabilities	26	**4,684**	81
		6,450	2,027
Net assets		**2,308,150**	1,898,790
Capital and reserves			
Share capital	27	**36,366**	36,366
Convertible preference shares	27	**27,897**	27,897
Reserves		**2,243,887**	1,834,527
Total equity		**2,308,150**	1,898,790

The consolidated financial statements on pages 62 to 146 were approved and authorised for issue by the board of directors on 30 March 2021 and are signed on its behalf by:

Zhao Yong *(resigned on 8 April 2021)*
DIRECTOR

Zhu Jianqiu
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital *HK$'000*	Convertible preference shares *HK$'000*	Statutory reserve *HK$'000* *(Note i)*	Merger reserve *HK$'000* *(Note ii)*	Translation reserve *HK$'000*	Other reserve *HK$'000* *(Note iii)*	Contributed surplus *HK$'000* *(Note iv)*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2019	36,366	27,897	107,269	(1,248,106)	(119,856)	(203,432)	1,837,999	1,295,104	1,733,241
Profit for the year	–	–	–	–	–	–	–	289,166	289,166
Exchange differences arising from translation of consolidated financial statements to presentation currency	–	–	–	–	(46,501)	–	–	–	(46,501)
Total comprehensive (expense) income for the year	–	–	–	–	(46,501)	–	–	289,166	242,665
Appropriation to statutory reserve	–	–	3,950	–	–	–	–	(3,950)	–
Dividends recognised as distribution *(Note 12)*	–	–	–	–	–	–	(77,116)	–	(77,116)
At 31 December 2019	**36,366**	**27,897**	**111,219**	**(1,248,106)**	**(166,357)**	**(203,432)**	**1,760,883**	**1,580,320**	**1,898,790**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**345,398**	**345,398**
Exchange differences arising from translation of consolidated financial statements to presentation currency	**–**	**–**	**–**	**–**	**166,783**	**–**	**–**	**–**	**166,783**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**166,783**	**–**	**–**	**345,398**	**512,181**
Appropriation to statutory reserve	**–**	**–**	**4,219**	**–**	**–**	**–**	**–**	**(4,219)**	**–**
Dividends recognised as distribution *(Note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**(102,821)**	**–**	**(102,821)**
At 31 December 2020	**36,366**	**27,897**	**115,438**	**(1,248,106)**	**426**	**(203,432)**	**1,658,062**	**1,921,499**	**2,308,150**

Notes:

(i) In accordance with the Articles and Association of the People's Republic of China (the "PRC") subsidiaries and the relevant laws and regulations applicable in the PRC, companies established in the PRC are required to appropriate at least 10% of their statutory annual profits after tax determined in accordance with the relevant statutory rules and regulations applicable to enterprises in the PRC to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC companies. The amount of the transfer is subject to the approval of the board of director of the respective PRC companies.

(ii) The merger reserve represents the difference between the considerations and the assets and liabilities acquired under business combinations under common control.

(iii) The other reserve represents the difference between the consideration paid and the carrying values of non-controlling interests acquired during the year ended 31 December 2014.

(iv) On 15 May 2015, a resolution was passed on the annual general meeting to approve the reduction of the amount of approximately HK$2,095,051,000 standing to the credit of the share premium account of the Company and the transfer of the entire amount to the contributed surplus account of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**415,477**	401,951
Adjustments for:		
Depreciation for plant and equipment	**3,859**	4,150
Depreciation of right-of-use assets	**8,133**	6,987
Amortisation of intangible assets	**4,177**	3,587
Finance costs	**144,130**	85,411
Bank interest income	**(23,187)**	(10,700)
Interest income on structured deposits	**–**	(9,316)
Gain on fair value changes of financial assets at fair value through profit or loss	**(19,435)**	–
Government grants	**(25,062)**	(30,106)
Allowance for inventories	**46,870**	9,309
Impairment loss on trade receivables, net	**19,114**	7,705
Waive of trade payables	**–**	(1,985)
Waive of customer deposits	**–**	(358)
Written off of software	**7,070**	8,572
Written off of plant and equipment	**9,989**	5,260
Operating cash flows before movements in working capital	**591,135**	480,467
(Increase) decrease in inventories	**(879,937)**	164,837
Increase in trade receivables	**(860,395)**	(724,430)
Increase in bills receivables at fair value through other comprehensive income	**(4,974,016)**	(2,929,270)
Decrease (increase) in trade deposits paid	**11,930**	(138,024)
Increase in prepayments, deposits and other receivables	**(18,151)**	(7,494)
Decrease (increase) in amounts due from related parties	**6,423**	(11,916)
Increase (decrease) in amounts due to related parties	**8,571**	(144)
Increase in trade and bills payables	**3,034,644**	1,760,888
Increase in other payables	**5,646**	68,203
Increase in contract liabilities	**7,524**	71,865
Receipt of government grants	**24,613**	29,520
Cash used in operations	**(3,042,013)**	(1,235,498)
The PRC tax paid	**(57,358)**	(119,198)
HK profits tax paid	**(6,444)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(3,105,815)**	(1,354,696)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 *HK$'000*	2019 *HK$'000*
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(4,052,892)**	(1,508,313)
Placement of structured deposits	**–**	(1,224,972)
Addition of intangible assets	**(145)**	(5,319)
Distribution from financial asset at fair value through profit or loss	**21,338**	–
Purchase of plant and equipment	**(855)**	(4,366)
Acquisition of a subsidiary	**–**	(602)
Withdrawal of pledged bank deposits	**2,320,412**	645,825
Withdrawal of structured deposits	**–**	1,903,591
Interest received	**23,187**	10,700
NET CASH USED IN INVESTING ACTIVITIES	**(1,688,955)**	(183,456)
FINANCING ACTIVITIES		
Repayments of borrowings	**(3,742,635)**	(6,008,990)
Dividend paid	**(101,406)**	(77,116)
Interest paid	**(74,385)**	(44,916)
Repayment of lease liabilities	**(7,877)**	(6,826)
Guarantee fee paid	**(10,333)**	(6,070)
Interest on lease liabilities paid	**(536)**	(306)
New borrowings raised	**4,829,719**	6,150,864
Advances on discounted bills, net of interest	**3,533,340**	1,922,829
NET CASH FROM FINANCING ACTIVITIES	**4,425,887**	1,929,469
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(368,883)**	391,317
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**711,740**	334,240
Effect of foreign exchange rate changes	**26,734**	(13,817)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**369,591**	711,740

1. GENERAL INFORMATION

Changhong Jiahua Holdings Limited (the "Company") was incorporated in Bermuda with limited liability.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Unit 1412, 14/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries (together with the Company collectively "the Group") are set out in Note 37.

The functional currency of the Company is Renminbi ("RMB") and the consolidated financial statements are presented in Hong Kong dollars ("HK$"). As the Company is a public company with its shares listed on the Stock Exchange with most of its investors located in Hong Kong, the directors of the Company consider that HK$ is preferable in presenting the operating result and financial position of the Group.

Sichuan Changhong Electronic Co., Limited ("Sichuan Changhong"), a company incorporated in the PRC with its shares listed on the Shanghai Stock Exchange, has obtained the control over the board of directors of the Company since 2012. Sichuan Changhong Electronics Holding Group Co., Ltd., ("Sichuan Changhong Holding", a company established in the PRC and wholly-owned by the State-owned Assets Supervision and Administration Commission of the Mianyang city government and one of the Controlling Shareholders) is the single largest shareholder of Sichuan Changhong, which held approximately 23.22% of the entire issued share capital of Sichuan Changhong and has de facto control over the composition of the majority of the board of Sichuan Changhong. In the opinion of the directors of the Company, Sichuan Changhong Holding, Sichuan Changhong, Changhong (Hong Kong) Trading Limited and Fit Generation Holding Limited ("Fit Generation") remain as a group of controlling shareholders as at 31 December 2020. The Company's immediate holding company is Fit Generation, a private company incorporated in the British Virgin Islands.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

New and amendments to HKFRSs in issue 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 and the related Amendments[1]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

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

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, including convertible instruments in which the conversion options are classified as equity instruments, and the related terms and conditions stipulated in the agreements between the Group and the relevant lenders/convertible instrument holders, the application of the amendments will not result in reclassification of the Group's liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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 at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, 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. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation of consolidated financial statements *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

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 when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year 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.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Investments in subsidiaries

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment loss.

Revenue from contracts with customers

The Group recognises 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 the customer.

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

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

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

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 (or an amount of consideration is due) from the customer.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods or service separately to a customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal as it controls the specified goods or service before that good or service is transferred to a customer.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 *Leases* at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee *(Continued)*

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee *(Continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee *(Continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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 recognised 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 operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Foreign currencies *(Continued)*

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

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

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

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

Government grants related to income 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. Such grants are presented under "other income".

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as expenses when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 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 because of income or expense that are taxable or deductible in other years and 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 the 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 differences 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 the initial recognition (other than in a business combination) of 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 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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 to the same taxable entity by the same taxation authority.

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Plant and equipment

Plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Plant and equipment *(Continued)*

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.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets — research and development expenditure

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Intangible assets *(Continued)*

Internally-generated intangible assets — research and development expenditure *(Continued)*

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on plant and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Impairment on plant and equipment, right-of-use assets and intangible assets *(Continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) 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 a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sale.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments

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

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 that are directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and receivables subsequently measured at FVTOCI. 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 from the next reporting period. If 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 from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

(ii) Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these receivables. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured 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. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, bills receivables at FVTOCI, pledged bank deposits, bank balances and cash, other receivables and amounts due from related companies) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done 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 conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

(i) Significant increase in credit risk

In assessing whether the credit risk 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.

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

- 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, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- 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; 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 has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(i) Significant increase in credit risk *(Continued)*

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.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when 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).

Irrespective of the above, 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.

(iii) 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:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) 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;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL 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 and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL *(Continued)*

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For receivables that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amount of these receivables. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

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 entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Perpetual instruments, which include no contractual obligation for the Group to deliver cash or other financial assets or the Group has the sole discretion to defer payment of distribution and redemption of principal amount indefinitely are classified as equity instruments.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, other payables, amounts due to related companies and borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 and liabilities that are not readily apparent from other resources. 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. The management of the Group reviewed the inventory aging report at the end of the reporting period to identify inventories that there are no longer saleable in the market and estimated the net realisable value for those items based primarily on the latest invoice prices and current market conditions.

The information about the allowance for inventories and the Group's inventories are disclosed in Notes 10 and 21, respectively.

Provision of ECL for trade receivables

Trade receivables that are credit-impaired are assessed for ECL individually.

In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 34(b).

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2020 ICT consumer products *HK$'000*	ICT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Types of goods or service				
Sales of Information and Communication Technology ("ICT") products	**14,237,535**	**9,785,489**	**59,911**	**24,082,935**
Sales of smartphone and own brand products	**–**	**–**	**15,950,692**	**15,950,692**
Sales of warranty packages and professional integrated ICT solutions	**16,679**	**236,946**	**82,613**	**336,238**
Provision of ICT services	**–**	**–**	**11,436**	**11,436**
	14,254,214	**10,022,435**	**16,104,652**	**40,381,301**
Timing of revenue recognition				
A point of time	**14,254,214**	**10,022,435**	**16,093,216**	**40,369,865**
Overtime	**–**	**–**	**11,436**	**11,436**
	14,254,214	**10,022,435**	**16,104,652**	**40,381,301**

Segments	For the year ended 31 December 2019 ICT consumer products *HK$'000*	ICT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Types of goods or service				
Sales of ICT products	12,250,375	7,997,218	54,472	20,302,065
Sales of smartphone and own brand products	–	–	9,493,897	9,493,897
Sales of warranty packages and professional integrated ICT solutions	5,122	102,510	78,781	186,413
Provision of ICT services	–	–	17,294	17,294
	12,255,497	8,099,728	9,644,444	29,999,669
Timing of revenue recognition				
A point of time	12,255,497	8,099,728	9,627,150	29,982,375
Overtime	–	–	17,294	17,294
	12,255,497	8,099,728	9,644,444	29,999,669

5. REVENUE *(Continued)*

(ii) Performance obligations for contracts with customers

For sales of products to distributors, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the distributors' specific location (delivery). Following delivery, the distributor has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. For sales of warranty packages and professional integrated ICT solutions, control is transferred when the customers have the right to use or sell these products.

The ICT services are recognised overtime and considered to be distinct services as it is supplied by the Group to customers on a stand-alone basis or is available for customers from other providers in the market.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All sales of goods and provision of services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

Information reported to the executive directors or the management of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. ICT Consumer Products — distribution of ICT consumer products which include mainly personal computers, digital products and IT accessories.

2. ICT Corporate Products — distribution of ICT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system products and unified communications and contact centre products.

3. Others — distribution of smartphones and development of its own brand products including but not limited to intelligent terminals, sales of warranty packages and professional integrated ICT solutions and provision of ICT services.

The accounting policies of the reportable and 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 other income, research and development expenses, finance costs, exchange loss, net as well as unallocated head office and corporate administrative expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

6. SEGMENT INFORMATION *(Continued)*

Segment assets do not include plant and equipment, intangible assets, right-of-use assets, tax recoverable, prepayments, deposits and other receivables, structured bank deposits, pledged bank deposits, bank balances and cash, and financial asset at FVTPL. Segment liabilities do not include other payables, tax payables, lease liabilities, unallocated amounts due to related companies, government grants and borrowings.

The following is an analysis of the Group's revenue and results, as well as assets and liabilities by reportable and operating segment:

For the year ended 31 December 2020

	ICT consumer products *HK$'000*	ICT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue				
External sales	14,254,214	10,022,435	16,104,652	40,381,301
Segment profit	264,586	339,684	91,506	695,776
Other income				68,657
Research and development expenses				(24,557)
Administrative expenses				(180,176)
Exchange loss, net				(93)
Finance costs				(144,130)
Profit before tax				415,477

6. SEGMENT INFORMATION *(Continued)*

	ICT consumer products *HK$'000*	ICT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment assets	2,838,816	3,553,218	1,089,597	7,481,631
Unallocated assets:				
Pledged bank deposits				2,917,765
Bank balances and cash				369,591
Prepayments, deposits and other receivables				119,196
Tax recoverable				4,065
Plant and equipment				5,726
Right-of-use assets				12,599
Intangible assets				18,484
Financial asset at FVTPL				30,666
Total consolidated assets				10,959,723
Segment liabilities	3,411,590	1,374,479	1,283,908	6,069,977
Unallocated liabilities:				
Other payables				331,711
Amounts due to related companies				12,461
Government grants				1,766
Tax payables				26,723
Borrowings				2,195,451
Lease liabilities — non current				4,684
Lease liabilities — current				8,800
Total consolidated liabilities				8,651,573

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2019

	ICT consumer products *HK$'000*	ICT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue				
External sales	12,255,497	8,099,728	9,644,444	29,999,669
Segment profit	253,938	322,742	46,561	623,241
Other income				52,711
Research and development expenses				(13,509)
Administrative expenses				(168,480)
Exchange loss, net				(6,601)
Finance costs				(85,411)
Profit before tax				401,951
Segment assets	2,604,362	2,024,258	745,568	5,374,188
Unallocated assets:				
Pledged bank deposits				1,022,483
Bank balances and cash				711,740
Prepayments, deposits and other receivables				93,935
Plant and equipment				18,326
Right-of-use assets				2,946
Intangible assets				28,404
Financial asset at FVTPL				30,699
Total consolidated assets				7,282,721
Segment liabilities	2,518,181	966,572	558,302	4,043,055
Unallocated liabilities:				
Other payables				309,237
Amounts due to related companies				6,412
Government grants				1,946
Tax payables				14,857
Borrowings				1,005,285
Lease liabilities — non current				81
Lease liabilities — current				3,058
Total consolidated liabilities				5,383,931

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2020

	ICT consumer products *HK$'000*	ICT corporate products *HK$'000*	Others *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment loss on trade receivables, net	6,136	11,854	1,124	–	19,114
Allowance for inventories	3,728	30,994	12,148	–	46,870
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Research and development expenses	–	–	–	24,557	24,557
Addition to non-current assets	–	–	–	18,093	18,093
Depreciation	–	–	–	11,992	11,992
Amortisation	–	–	–	4,177	4,177
Bank interest income	–	–	–	(23,187)	(23,187)
Finance costs	–	–	–	(144,130)	(144,130)
Income tax expenses	–	–	–	70,079	70,079

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2019

	ICT consumer products HK$'000	ICT corporate products HK$'000	Others HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment loss on trade receivables, net	3,195	3,771	739	–	7,705
Allowance (reversal of allowance) for inventories	2,929	6,576	(196)	–	9,309
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Research and development expenses	–	–	–	13,509	13,509
Addition to non-current assets	–	–	–	9,929	9,929
Depreciation	–	–	–	11,137	11,137
Amortisation	–	–	–	3,587	3,587
Bank interest income	–	–	–	(10,700)	(10,700)
Finance costs	–	–	–	85,411	85,411
Income tax expenses	–	–	–	112,785	112,785

6. SEGMENT INFORMATION *(Continued)*

Geographical information

The following table provides an analysis of the Group's sales by geographical market, based on the origin of the goods:

	2020 **HK$'000**	2019 HK$'000
Mainland, China	**40,326,992**	29,869,634
Other regions	**54,309**	130,035
	40,381,301	29,999,669

The following is an analysis of the carrying amount of non-current assets* analysed by the geographical area in which the assets are located:

	2020 **HK$'000**	2019 HK$'000
Hong Kong	**2**	1
Mainland, China	**36,807**	49,675
	36,809	49,676

* Non-current assets excluded financial instruments.

Information about major customers

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

	Year ended	
	2020 **HK$'000**	2019 HK$'000
Customer A[1]	**5,171,243**	–
Customer B[2]	**4,791,702**	3,652,151
Customer C[3]	**–**	3,630,842

1 Revenue from "Others" segment

2 Revenue from "ICT consumer products" segment and "others" segment

3 Revenue from "ICT consumer products" segment

7. OTHER INCOME

	2020 *HK$'000*	2019 *HK$'000*
Bank interest income	**23,187**	10,700
Government grants (Note 31)	**25,062**	30,106
Waive of customer deposits	**–**	358
Waive of trade payables	**–**	1,985
Interest income on structured deposits	**–**	9,316
Gain on fair value changes of financial assets at FVTPL	**19,435**	–
Others	**973**	246
	68,657	52,711

8. FINANCE COSTS

	2020 *HK$'000*	2019 *HK$'000*
Interest on:		
Bank and other borrowings	**72,286**	45,160
Discounted bills receivables	**60,975**	33,875
Guarantee fee	**10,333**	6,070
Lease liabilities	**536**	306
	144,130	85,411

9. INCOME TAX EXPENSES

	2020 **HK$'000**	2019 HK$'000
Current tax:		
Hong Kong Profits Tax		
— Provision for the year	**–**	–
— Overprovision in prior years	**–**	(38)
	–	(38)
The PRC Enterprise Income Tax ("EIT")		
— Provision for the year	**98,967**	108,053
— (Over)under provision in prior years	**(28,888)**	4,770
	70,079	112,823
	70,079	112,785

Pursuant to the rules and regulations of the Bermuda, the Company is not subject to any income tax in the Bermuda.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2019 (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$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, except as disclosed below, the tax rates of the subsidiaries in PRC are 25% for both years.

Beijing Changhong IT Intelligence System Co., Ltd operating in the PRC have been accredited as a "High and New Technology Enterprise" by the Ministry of Science and Technology, the PRC and relevant authorities for a term of three years starting 2018, and have been registered with the local tax authorities for enjoying the reduced 15% EIT rate. Accordingly, the profits derived by the subsidiary are subject to 15% EIT rate for the year ended 31 December 2020 and 2019. The qualification as a High and New Technology Enterprise will be subject to review every three years by the relevant tax authorities in the PRC.

In 2020, Changhong IT Digital Technology Co., Ltd.("Changhong IT Digital") and Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd, operating in the PRC, have been qualified as the "Encouraged Enterprises" under "The Catalogue of Encouraged Industries in Western Regions" (the "Catalogue"), as their main business is one of the encouraged business in the Catalogue and the revenue from their main business accounts for more than the required percentage of their total revenue, and enjoyed the reduced preferential EIT rate of 15%. Accordingly, the profits derived by the aforesaid subsidiaries are subject to 15% EIT rate for the year ended 31 December 2020.

9. INCOME TAX EXPENSES *(Continued)*

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

	2020 **HK$'000**	2019 HK$'000
Profit before tax	**415,477**	401,951
Tax at the domestic income tax rate of 25% (2019: 25%) (Note)	**103,869**	100,488
Tax effect of income not taxable for tax purpose	**(17)**	(734)
Tax effect of expenses not deductible for tax purpose	**1,297**	1,096
Effect of tax exemption and tax concessions	**(30,983)**	(143)
Tax effect of tax losses not recognised	**2,961**	2,664
Tax effect of deductible temporary differences not recognised	**19,086**	2,080
Utilisation of deductible temporary differences not recognised	**(589)**	–
(Over)underprovision in prior years	**(28,888)**	4,732
Others	**3,343**	2,602
Income tax expenses	**70,079**	112,785

Note: The domestic tax rate in the jurisdiction where the operations of the Group are substantially based is used.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to HK$2,322,075,000 (2019: HK$1,976,382,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of HK$37,454,000 (2019: HK$25,610,000) contributed by continuing operations available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unrecognised tax losses of approximately HK$23,965,000 (2019: HK$15,688,000) will expire from 2023 to 2025, and approximately HK$13,489,000 (2019: HK$9,792,000), subject to agreement by Hong Kong Inland Revenue Department, may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences in relation to allowance for inventories, provisions for ECL and other miscellaneous expense deductions of HK$82,308,000 (2019: HK$8,320,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

10. PROFIT FOR THE YEAR

Profit for the year from continuing operations has been arrived at after charging (crediting):

	2020	2019
	HK$'000	*HK$'000*
Depreciation for plant and equipment	**3,859**	4,150
Depreciation for right-of-use assets	**8,133**	6,987
Amortisation of intangible assets	**4,177**	3,587
Auditor's remuneration	**2,350**	2,300
Directors' emoluments	**14,916**	13,813
Cost of inventories recognised as an expense	**39,302,538**	29,040,470
Staff costs, (including directors' emoluments)		
— Salaries and related staff costs	**283,720**	237,352
— Retirement benefits scheme contributions	**35,452**	43,854
	319,172	281,206
Allowance for inventories, net (included in cost of sales)	**46,870**	9,309
Impairment loss on trade receivables, net	**19,114**	7,705
Research and development expenses (Note)	**24,557**	13,509
Written off of plant and equipment	**9,989**	5,260
Written off of software	**7,070**	8,572

Note: Included in the research and development expenses, approximately HK$10,240,000 (2019: HK$7,664,000) are related to staff costs.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's emoluments

Details of emoluments paid by the Group to the directors and chief executive of the Company during the year are as follows:

For the year ended 31 December 2020

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Performance related incentive payments *HK$'000*	Total *HK$'000*
Executive directors					
Mr. Zhao Yong (resigned, effective on 8 April 2021)	–	–	–	–	–
Mr. Zhu Jianqiu *(Chairman and Chief Executive)*	–	1,241	94	13,021	14,356
Mr. Yang Jun (resigned, effective on 8 April 2021)	–	–	–	–	–
Mr. Luo Yongping	–	–	–	–	–
Sub-total	–	1,241	94	13,021	14,356
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	200	–	–	–	200
Mr. Gao Xudong	180	–	–	–	180
Mr. Meng Gingbin	180	–	–	–	180
Sub-total	560	–	–	–	560
Total					14,916

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors' and chief executive's emoluments *(Continued)*

For the year ended 31 December 2019

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Performance related incentive payments *HK$'000*	Total *HK$'000*
Executive directors					
Mr. Zhao Yong (resigned on 8 April 2021)	–	–	–	–	–
Mr. Zhu Jianqiu *(Chairman and Chief Executive)*	–	1,257	132	11,796	13,185
Mr. Yang Jun (resigned on 8 April 2021)	–	–	–	–	–
Mr. Luo Yongping (appointed with effect from 1 January 2019)	–	–	–	–	–
Mr. Li Jin (resigned with effect from 15 January 2019)	–	–	–	–	–
Sub-total	–	1,257	132	11,796	13,185
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	200	–	–	–	200
Mr. Robert Ip Chun Chung (resigned with effect from 17 May 2019)	68	–	–	–	68
Mr. Sun Dongfeng (resigned with effect from 17 May 2019)	68	–	–	–	68
Mr. Cheng Yuk Kin (resigned with effect from 17 May 2019)	68	–	–	–	68
Mr. Gao Xudong (appointed with effect from 17 May 2019)	112	–	–	–	112
Mr. Meng Gingbin (appointed with effect from 17 May 2019)	112	–	–	–	112
Sub-total	628	–	–	–	628
Total					13,813

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

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

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Mr. Zhu Jianqiu is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive. He is entitled to bonus payments which are determined based on a percentage of the Group's financial performance, including revenue and profit after tax for the year.

Five highest paid individuals

Of the five individuals with the highest emoluments in this Group, one (2019: one) was a director of the Company whose emoluments are included in the disclosure as above. The emoluments of the remaining four (2019: four) individuals who are neither directors nor chief executive of the Company were as follows:

	2020 ***HK$'000***	2019 *HK$'000*
Salaries and other allowances	**15,839**	14,078
Retirement benefit scheme contributions	**246**	416
	16,085	14,494

Their emoluments fell within the following bands:

	Number of individuals	
	2020	2019
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$5,500,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$6,500,000	**1**	–
	4	4

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Five highest paid individuals *(Continued)*

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years. During the years ended 31 December 2020, Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yang Jun and Mr. Luo Yongping waived emoluments of HK$60,000 each (2019: HK$60,000 each).

Mr. Zhu Jianqiu is also the managing director of the Company and has overall chief executive responsibility for the Group's business development and day to day management and his emoluments disclosed above include those for services rendered by him as the managing director.

12. DIVIDENDS

	2020 ***HK$'000***	2019 *HK$'000*
Dividends recognised as distribution during the year:		
2019 Final — HK4 cents per share (2019: 2018 Final — HK3 cents per share)	**102,821**	77,116

The directors recommend the payment of a final dividend of HK5 (2019 Final: HK4) cents per share in respect of the year ended 31 December 2020 which is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

	2020 HK$'000	2019 HK$'000
Earnings		
Profit for the year attributable to owners of the Company	**345,398**	289,166
Less: Earnings attributable to convertible preference shares	**(149,938)**	(125,528)
Earnings for the purpose of basic earnings per share	**195,460**	163,638
Add: Earnings attributable to convertible preference shares	**149,938**	125,528
Earnings for the purpose of diluted earnings per share	**345,398**	289,166

	2020 '000	2019 '000
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,454,652**	1,454,652
Weighted average number of convertible preference shares for the purpose of diluted earnings per share	**1,115,868**	1,115,868
Weighted average number of shares for the purpose of diluted earnings per share	**2,570,520**	2,570,520

14. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1 January 2019	67,489	7,117	2,012	76,618
Additions	4,366	–	–	4,366
Written off/disposal	(6,537)	(1,239)	–	(7,776)
Exchange realignment	(1,452)	(135)	(44)	(1,631)
At 31 December 2019	63,866	5,743	1,968	71,577
Additions	855	–	–	855
Written off/disposal	(17,870)	–	(1,983)	(19,853)
Exchange realignment	3,145	365	15	3,525
At 31 December 2020	49,996	6,108	–	56,104
DEPRECIATION				
At 1 January 2019	44,370	6,675	1,764	52,809
Charge for the year	3,836	260	54	4,150
Written off/eliminated on disposals	(1,277)	(1,239)	–	(2,516)
Exchange realignment	(1,024)	(128)	(40)	(1,192)
At 31 December 2019	45,905	5,568	1,778	53,251
Charge for the year	3,629	177	53	3,859
Written off/eliminated on disposals	(8,018)	–	(1,846)	(9,864)
Exchange realignment	2,754	363	15	3,132
At 31 December 2020	44,270	6,108	–	50,378
CARRYING VALUES				
At 31 December 2020	5,726	–	–	5,726
At 31 December 2019	17,961	175	190	18,326

14. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line basis over the estimated useful lives after taking into account their estimated residual values at the following periods:

Furniture, fixtures and equipment	5 to 10 years
Leasehold improvements	over the term of the lease ranging from 2 to 5 years
Motor vehicles	3 years

15. INTANGIBLE ASSETS

	Software *HK$'000*	Software under development *HK$'000*	Total *HK$'000*
COST			
At 1 January 2019	33,651	5,045	38,696
Additions	924	4,395	5,319
Transfer	9,419	(9,419)	–
Written off	(9,539)	–	(9,539)
Exchange realignment	(734)	(21)	(755)
At 31 December 2019	33,721	–	33,721
Additions	145	–	145
Transfer	–	–	–
Written off	(9,742)	–	(9,742)
Exchange realignment	1,614	–	1,614
At 31 December 2020	25,738	–	25,738
AMORTISATION			
At 1 January 2019	2,793	–	2,793
Charge for year	3,587	–	3,587
Elimination of written off	(967)	–	(967)
Exchange realignment	(96)	–	(96)
At 31 December 2019	5,317	–	5,317
Charge for year	4,177	–	4,177
Elimination of written off	(2,672)	–	(2,672)
Exchange realignment	432	–	432
At 31 December 2020	7,254	–	7,254
CARRYING VALUES			
At 31 December 2020	18,484	–	18,484
At 31 December 2019	28,404	–	28,404

15. INTANGIBLE ASSETS *(Continued)*

Software under development being development cost of a one-stop internet distribution platform which provides upstream and downstream customers with industrial chain solutions, and assist distributors and retailers to transform towards Internet Plus, which is the solution to integrate conventional business model and new technologies such as online selling platform and cloud storage service, it is able to demonstrate the ability to generate future economic benefits to the Group. The Group has also developed mobile location-based services products for distribution to customers.

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over 5–10 years.

During the year, written off of HK$7,070,000 (2019: HK$8,572,000) was made on software due to the production line was not profitable.

16. RIGHT-OF-USE ASSETS

	Office premises *HK$'000*
COST	
At 1 January 2019	9,778
Addition	244
Exchange realignment	(212)
At 31 December 2019	9,810
Addition	17,093
Exchange realignment	1,589
At 31 December 2020	28,492
ACCUMULATED DEPRECIATION	
At 1 January 2019	–
Charge for the year	6,987
Exchange realignment	(123)
At 31 December 2019	6,864
Charge for the year	8,133
Exchange realignment	896
At 31 December 2020	15,893
CARRYING AMOUNT	
At 31 December 2020	12,599
At 31 December 2019	2,946

16. RIGHT-OF-USE ASSETS *(Continued)*

	Year ended 31/12/2020 ***HK$'000***	Year ended 31/12/2019 *HK$'000*
Expense relating to short-term leases	**1,903**	2,257
Total cash outflow for leases	**10,316**	9,389

For both years, the Group leases office premises for its operations**.** Lease contracts are entered into for fixed term ranging from 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

17. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 ***HK$'000***	2019 *HK$'000*
Unlisted investment, at fair value	**30,666**	30,699

On 11 April 2015, Changhong IT Digital, an indirect wholly-owned subsidiary of the Company, entered into contracts with an independent third parties to invest RMB27,500,000 to establish Sichuan Hongyun New Generation of IT Venture Capital Fund* 四川虹雲新一代信息技術創業投資基金合夥企業(有限合夥) ("Sichuan Hongyun"), a private entity incorporated in the PRC, in which Changhong IT Digital holds 11% of the total partnership interest. As at 31 December 2020 and 2019, Changhong IT Digital has paid in full the investment amount to Sichuan Hongyun.

During the year ended 31 December 2020, Sichuan Hongyun disposed an underlying investment and paid distribution of HK$21,338,000 to Changhong IT Digital, including repayment of investment cost of approximately RMB1,691,000 (equivalent to HK$1,903,000) and investment income of HK$19,435,000. As at 31 December 2020, the investment cost amounted to approximately RMB25,809,000 (2019: RMB27,500,000).

The unlisted investment is measured at FVTPL at the end of both reporting periods. The fair values have been arrived at on the basis of valuation carried out by a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experience in the valuation of similar financial instruments.

* English name is for identification purpose only.

18. TRADE RECEIVABLES

	2020 ***HK$'000***	2019 *HK$'000*
Trade receivables	**3,156,574**	2,128,128
Less: Allowance for credit losses	**(46,538)**	(40,713)
Trade receivables	**3,110,036**	2,087,415

The following is the aging analysis of trade receivables, net of allowance for credit losses, based on the invoice dates at the end of reporting period with approximately the respective revenue recognition dates:

	2020 ***HK$'000***	2019 *HK$'000*
Within 30 days	**1,847,405**	1,180,463
31–60 days	**661,307**	427,543
61–90 days	**177,991**	238,836
91–180 days	**285,422**	129,386
181–365 days	**77,526**	55,267
Over 1 year	**60,385**	55,920
	3,110,036	2,087,415

The Group allows a credit period ranging from 30–180 days to its third party trade customers. As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$494,195,000 (2019: HK$369,386,000) which are past due but not impaired as at the reporting date. Out of the past due balances, HK$70,495,000 (2019: HK$91,344,000) has been past due 90 days or more and is not considered as in default as there has not been a significant change in credit quality and the amounts are still considered fully recoverable.

Details of impairment assessment of trade receivables are set out in Note 34(b).

19. BILLS RECEIVABLES AT FVTOCI

	2020 HK$'000	2019 HK$'000
Bills receivables at FVTOCI comprise of:		
Bills receivables aged within 360 days presented based on the issue dates of bills receivables	**418,414**	381,023

The Group's bills receivables are considered as within the hold to collect contractual cash flows and to sell business model, and classified as debt instruments at FVTOCI. Advances on discounted bills of HK$3,533,340,000 (2019: HK$1,922,829,000) are presented as financing cash inflow during the year, among which bills receivables of HK$3,015,961,000 (2019: HK$1,281,477,000) is matured before the year end. Bills receivables endorsed HK$1,367,530,000 (2019: HK$856,743,000) are presented as operating cashflow during the year. Outstanding discounted and endorsed bills receivables with recourse are set out in Note 32.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Prepayments	**109**	253
Other tax receivable	**49,410**	42,429
Deposits	**11,521**	9,455
Other receivables	**58,156**	41,798
	119,196	93,935

Other receivables are unsecured, interest-free and recoverable within one year from the end of the reporting period.

21. INVENTORIES

	2020 HK$'000	2019 HK$'000
Trading merchandises	**3,131,603**	2,115,395

As at 31 December 2020, the carrying amount of inventories was net of allowance for inventories of approximately HK$84,340,000 (2019: HK$32,737,000).

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances bear interests at floating rates based on bank deposits rates which ranged from 0.35% to 2.76% (2019: 0.35% to 3.95%) per annum.

At 31 December 2020, pledged bank deposits were pledged to secure general banking facilities granted to the Group at floating rates which ranged from 0.35% to 2.95% (2019: 0.35% to 2.24%) per annum.

23. TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables, based on the date of receipt of goods, is as follows:

	2020	2019
	HK$'000	*HK$'000*
Within 30 days	**2,758,239**	1,769,173
31–60 days	**1,626,687**	859,048
61–90 days	**292,518**	573,545
91–180 days	**723,689**	349,752
181–365 days	**175,579**	36,781
Over 1 year	**45,604**	44,853
	5,622,316	3,633,152

The credit period on purchase of goods is ranging from 30–120 days (2019: 30–120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

24. OTHER PAYABLES

	2020	2019
	HK$'000	*HK$'000*
Accruals	**29,076**	19,618
Provision for social insurance and housing provident fund (Note)	**42,626**	43,052
Other tax payables	**87,812**	103,431
Salaries payables	**119,947**	85,636
Interest payables	**5,857**	7,836
Government grants (Note 31)	**464**	595
Other payables	**45,929**	49,069
	331,711	309,237

24. OTHER PAYABLES *(Continued)*

Note: The Group entered into labour service agreements separately with two employment agencies (the "Employment Agencies"), each independent third party labour service company, to provide contractual workers for its production. Pursuant to the labour service agreement, the Employment Agencies will instruct these contractual workers to follow the direction of the Group's management for day-to-day work assignments. However, under the PRC Labour Contract Law, if each of the Employment Agencies violates the PRC Labour Contract Law and such violation results in damages to the contractual workers, the Group would be jointly and severally liable for the compensation payables to the contractual workers.

The Group has not paid the social insurance contribution and housing provident fund for these contractual workers in respect of the bonus paid by the Group to those contractual workers under the agreements made between the labour service company and these contractual workers.

As at 31 December 2020, the Group has total accumulated unpaid amount of social insurance and housing provident fund of approximately HK$42,626,000 (2019: HK$43,052,000). Provisions for the unpaid amounts had been recognised and included in other payables. As at 31 December 2020, the Group had not received any notice from the relevant housing fund or social security authorises ordering the Group to make outstanding payments or rectification, or any administrative penalties from the relevant authorities. The relevant authorities may request the Group at any time to pay up the outstanding amount of the social insurance or housing provident fund contributions and may impose a fine of up to three times of the unpaid amount of social insurance and housing provident fund on the Group if the above mentioned unpaid amounts are not settled within the time specified in the notice. The fine will be recognised in the consolidated statement of financial position if the Group does not settle the unpaid amounts within a specific time upon the request. During the years ended 31 December 2020 and 2019, no such request was received by the Group.

25. CONTRACT LIABILITIES

	2020 ***HK$'000***	2019 *HK$'000*
Contract liabilities, current	**444,244**	409,903

As at 1 January 2019, contract liabilities amounted to HK$347,231,000.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

25. CONTRACT LIABILITIES *(Continued)*

	Sales of ICT product *HK$'000*
For the year ended 31 December 2020	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	395,116
For the year ended 31 December 2019	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	303,820

The Group receives payments from customers based on billing schedules as established in the sales contracts. Payments are usually received in advance of the performance under the contracts for transfer of control of products to the customers and provision of services.

26. LEASE LIABILITIES

	31/12/2020 ***HK$'000***	31/12/2019 *HK$'000*
Lease liabilities payable:		
Within one year	**8,800**	3,058
Within a period of more than one year but not more than two years	**4,684**	81
	13,484	3,139
Less: Amount due for settlement with 12 months shown under current liabilities	**(8,800)**	(3,058)
Amount due for settlement after 12 months shown under non-current liabilities	**4,684**	81

The weighted average incremental borrowing rate applied to lease liabilities is 4.75% for both years.

27. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES

	Number of shares		Share capital	
	2020	2019	**2020**	2019
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
Ordinary shares of HK$0.025 each				
At the beginning and at the end of the financial year	**5,000,000**	5,000,000	**125,000**	125,000
Convertible preference shares of HK$0.025 each				
At the beginning and at the end of the financial year	**3,000,000**	3,000,000	**75,000**	75,000

The convertible preference shares shall be non-redeemable by the Company or the holders thereof.

	Ordinary share			
	Number of shares		Share capital	
	2020	2019	**2020**	2019
	'000	*'000*	***HK$'000***	*HK$'000*
Issued and fully paid:				
At beginning and end of year	**1,454,652**	1,454,652	**36,366**	36,366

	Convertible preference share			
	Number of shares		Share capital	
	2020	2019	**2020**	2019
	'000	*'000*	***HK$'000***	*HK$'000*
At beginning and end of year	**1,115,868**	1,115,868	**27,897**	27,897

27. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES *(Continued)*

The major terms of the convertible preference shares are set out below:

The convertible preference shares are convertible into ordinary shares of the Company and are entitled to the same dividends that are declared for the ordinary shares. The convertible preference shares of the Company shall be convertible at the option of holder at any time after the issue date with par value HK$0.025 each into ordinary shares of HK$0.025 each. Convertible preference shares do not carry the right to vote in shareholders' meeting. Upon winding up, the Company's residual assets and funds are distributed to the members of the Company in the following priority:

(i) in paying to the holders of the convertible preference shares, pari passu as between themselves by reference to the aggregate nominal amount of the convertible preference shares held by them respectively, an amount is equal to the aggregate of the issue price of all of the convertible preference shares held by them respectively;

(ii) the balance of such assets shall be distributed on a pari passu basis among the holders of any class of shares in the capital of the Company other than the convertible preference shares and other than any shares which are not entitled to participate in the distribution of such assets, by reference to the aggregate nominal amount paid up on the shares held by them respectively; and

(iii) the remaining balance of such assets shall belong to and be distributed on a pari passu basis among the holders of any class of shares including the convertible preference shares, other than any shares that are not entitled to participate of such assets, by reference to the aggregate nominal amount of shares held by them respectively.

28. DEFERRED TAXATION

The Group did not have recognised unused tax losses and other deductible temporary differences for both years.

29. BORROWINGS

	2020 ***HK$'000***	2019 *HK$'000*
Borrowings from a related company	**499,049**	–
Bank borrowings	**1,696,402**	1,005,285
	2,195,451	1,005,285

The borrowings from a related company represents the advance from a fellow subsidiary, 四川長虹集團財務有限公司 ("長虹財務"), as at 31 December 2020. The balance was unsecured, bearing interest at a fixed rate from 4.20% to 5.00% per annum and repayable within one year.

Bank borrowings are unsecured, the amounts due are based on scheduled repayment dates set out in the loan agreements. The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's bank borrowings for the year ended 31 December 2020 is fixed from 0.60% to 5.50% per annum (2019: 1.32% to 7.00% per annum).

30. RETIREMENT BENEFIT SCHEME

The Group has joined the mandatory provident fund (the "MPF Scheme") for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2020, contributions of the Group under the MPF Scheme amounted to approximately HK$54,000 (2019: HK$54,000).

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government (the "PRC Pension Scheme"). The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefit. The only obligation of the Group with respect to the pension scheme is to make the required contributions. For the year ended 31 December 2020, contributions of the Group under the PRC Pension Scheme amounted to approximately HK$35,398,000 (2019: HK$43,800,000).

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately HK$35,452,000 (2019: HK$43,854,000) for the year ended 31 December 2020, represent contributions payable to these schemes by the Group during the year ended 31 December 2020.

31. GOVERNMENT GRANTS

	Government grants related to ESS *HK$'000*	Government grants related to assets *HK$'000*	Government grants related to income *HK$'000*	Total *HK$'000*
At 1 January 2019	–	3,186	–	3,186
Receipt of government grant	–	–	29,520	29,520
Credit to other income	–	(586)	(29,520)	(30,106)
Exchange realignment	–	(59)	–	(59)
At 31 December 2019	–	2,541	–	2,541
Receipt of government grant	108	–	24,505	24,613
Credit to other income	(108)	(449)	(24,505)	(25,062)
Exchange realignment	–	138	–	138
At 31 December 2020	–	2,230	–	2,230

The movement of government grants is as follows:

	2020 *HK$'000*	2019 *HK$'000*
Balance as at 31 December	**2,230**	2,541
Less: Amounts to be recognised as government grants within one year, classified as current liabilities and included in other payables	**464**	595
Amounts to be recognised as government grants after one year, classified as non-current liabilities	**1,766**	1,946

During the current year, the Group recognised government grants of HK$108,000 (2019:nil) in respect of Covid-19-related subsidies, of which the full amount relates to Employment Support Scheme provided by the Hong Kong Government. The Group received government grants and tax refunds of approximately HK$24,505,000 (2019: HK$29,520,000) during the year ended 31 December 2020 towards the research and development expenditure. The amounts have been treated as deferred income and are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. This policy has resulted in a credit to other income in the current year of approximately HK$24,505,000 (2019: HK$29,520,000).

The Group received government grants towards the acquisition of plant and equipment. The amounts have been treated as deferred income and transferred to income over the useful lives of the related assets. This policy has resulted in a credit to other income in the current year of approximately HK$449,000 (2019: HK$586,000).

32. CONTINGENT LIABILITIES

During the years ended 31 December 2020 and 2019, the Group (i) endorsed certain bills receivables for the settlement of trade and other payables; and (ii) discounted certain bills receivables to banks for raising of cash. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivables, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of default in payment of the endorsed and discounted bills receivables is low because all endorsed and discounted bills receivables are issued and guaranteed by the reputable banks in the PRC. As a result, the relevant assets and liabilities were not recognised in the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivables at the end of each reporting period are as follows:

	2020 ***HK$'000***	2019 *HK$'000*
Settlement of trade and other payables	**727,119**	582,103
Discounted bills for raising of cash	**385,294**	137,379
Outstanding endorsed and discounted bills receivables with recourse	**1,112,413**	719,482

The outstanding endorsed and discounted bills receivables are aged within 360 days (2019: 360 days) at the end of each reporting period.

33. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes borrowings, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group is not subject to any externally imposed capital requirements.

34. FINANCIAL INSTRUMENTS

34a. Categories of Financial Instruments

	2020 HK$'000	2019 HK$'000
Financial assets		
Financial asset at FVTPL	**30,666**	30,699
Bills receivables at FVTOCI	**418,414**	381,023
Financial assets at amortised cost	**6,456,979**	3,882,520
	6,906,059	4,294,242
Financial liabilities		
At amortised cost	**8,005,378**	4,787,390

34b. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade receivables, bill receivables at FVTOCI, amounts due from related companies, other receivables, pledged bank deposits, bank balances and cash, financial assets at FVTPL, trade and bills payables, other payables, lease liabilities, amounts due to related companies and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure the appropriate measures are implemented on a timely and effective manner.

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases which expose the Group to foreign currency risk. Approximately 1% (2019: 1%) of the Group's sales are denominated in currencies other than the functional currency of the respective group entity making the sale, whilst almost 99% (2019: 99%) of cost are denominated in the group entity's respective functional currency.

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

	Assets		Liabilities	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
United States dollars ("USD") (RMB as functional currency)	**49,425**	37,004	**145,649**	148,417
United States dollars ("USD") (HK$ as functional currency)	**25,878**	14,435	**95,318**	45,592

The Group will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to the currencies of RMB and USD. As the USD will only vary between HK$7.75 = USD1.00 and HK$7.85 = USD1.00 under the Linked Exchange Rate System, the management of the Company are of the opinion that the Group's exposure to USD relative to HK$ is minimal and accordingly, sensitivity analysis below represents the exposure of RMB against USD.

The following table details the Group's sensitivity to a 10% (2019: 10%) increase and decrease in the functional currency of group entities against the relevant foreign currencies. 10% (2019: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the 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 year end for a 10% (2019: 10%) change in foreign currency rates. A positive number below indicates increase in post-tax profit (2019: an increase in post-tax profit) where functional currency of group entities strengthen 10% (2019: 10%) against the relevant currency. For a 10% (2019: 10%) weakening of functional currency of group entities against the relevant currency, there would be an equal and opposite impact on the post-tax profit.

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk *(Continued)*

	USD Impact	
	2020	2019
	HK$'000	*HK$'000*
Profit or loss	**7,217**	8,356

(ii) Interest rate risk

The Group is exposed to fair value interest-rate risk in relation to fixed rate borrowings from banks (Note 29) and lease liabilities (Note 26). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate short-term bank balances and bank deposits (see Note 22 for details of these balances).

Sensitivity analysis

The sensitivity analysis below was 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. 100 basis points (2019: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

As at 31 December 2020, if interest rates on bank deposits had been 100 basis points (2019: 100 basis points) higher/lower and all other variables were held constant, post-tax profit for the year ended 31 December 2020 would have increased/decreased by HK$5,941,000 (2019: HK$3,182,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate short-term bank deposits.

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Market risk *(Continued)*

(iii) Other price risk

As at 31 December 2020, the Group's investment in an unlisted investment is classified at FVTPL. If the fair value of the respective unlisted investment had been 5% (2019: 5%) higher/lower, the post-tax profit would increase/decrease by HK$1,150,000 (2019: HK$1,151,000).

The price risk on the bills receivables at FVTOCI is limited because the maturity period of bills receivables are short.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, pledged bank deposits, bank balances, amounts due from related companies, other receivables and bills receivables at FVTOCI. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with settlement of certain bills receivables at FVTOCI are backed by bills guaranteed by reputable financial institutions.

Trade and bills receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed at the end of the reporting period. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

The Group accepts trade receivables settled by bills. The management of the Group considers the credit risk arising from the endorsed or discounted bills is insignificant when the bills are issued or guaranteed by reputable PRC banks. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The management estimates the estimated loss rates of commercial bills receivables based on historical credit loss experience of the debtors, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. Based on assessment by the management, the probability of default is low in view of the repayment history and credit rating of debtors and the management considers the ECL for commercial bills receivables is insignificant.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. Except for trade receivables that are credit-impaired, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. Impairment of HK$19,114,000 (2019: HK$7,705,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Amounts due from related companies and other receivables

Given the track record of high turnover in other receivables with trading counterparties of HK$46,057,000 and trade-related amounts due from related company under individual assessment, the directors of the Company are of the opinion that the risks of default by these counterparties are not significant, taking into account forward-looking information on macroeconomic factors. Therefore, expected credit loss rates of these financial assets are assessed to be insignificant.

Pledged bank deposits and bank balances

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

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There has been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off	Amount is written off

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Pledged bank deposits and bank balances *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Internal credit rating	12m or lifetime ECL	Gross carrying amount			
			2020		2019	
			HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at amortised costs						
Trade receivables	(Note)	Lifetime ECL — not credit-impaired	3,101,947		2,059,215	
— contracts with customers	Loss	Credit-impaired	54,627	3,156,574	68,913	2,128,128

Note: For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by aging of trade receivables.

Provision matrix — debtors' aging

As part of the Group's credit risk management, the Group uses aging of trade receivables to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables on invoice date which are assessed based on provision matrix as at 31 December 2020 within lifetime ECL (not credit impaired). Trade receivables with gross carrying amounts of HK$54,627,000 as at 31 December 2020 (2019: HK$68,913,000) were aged more than two years and legal action has been taken by the Group to demand for repayment. These debtors are credit-impaired and assessed individually.

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Gross carrying amount

	2020		2019	
	Average loss rate	**Trade receivables** *HK$'000*	Average loss rate	Trade receivables *HK$'000*
Current and within one year	**0.2%**	**3,039,404**	0.2%	2,008,300
Over one year and within two years	**15%**	**41,340**	15%	34,537
Over two years and within three years	**35%**	**12,367**	35%	8,187
More than three years	**40%**	**8,836**	40%	8,191
		3,101,947		2,059,215

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2020, the Group provided net impairment allowance of HK$4,035,000 (2019: HK$6,076,000) for trade receivables, based on the provision matrix. Impairment allowance of HK$15,079,000 (2019: HK$1,629,000) were made on credit impaired receivables.

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Gross carrying amount *(Continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) *HK$'000*	Lifetime ECL (credit-impaired) *HK$'000*	Total *HK$'000*
As at 1 January 2019	9,486	37,387	46,873
Changes due to financial instruments recognised as at 1 January 2020:			
— Transfer to credit-impaired	(8)	8	–
— Impairment losses recognised	6,397	1,724	8,121
— Impairment losses reversed	(9,900)	(2,356)	(12,256)
— Write-offs	–	(12,675)	(12,675)
New financial assets originated	9,579	2,261	11,840
Exchange adjustments	(215)	(975)	(1,190)
As at 31 December 2019	15,339	25,374	40,713
Changes due to financial instruments recognised as at 1 January 2020:			
— Transfer to credit-impaired	(234)	234	–
— Impairment losses recognised	13,008	11,975	24,983
— Impairment losses reversed	(13,794)	(761)	(14,555)
— Write-offs	–	(15,892)	(15,892)
New financial assets originated	4,821	3,865	8,686
Exchange adjustments	1,003	1,600	2,603
As at 31 December 2020	20,143	26,395	46,538

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Gross carrying amount *(Continued)*

The Group writes off a trade receivable 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. The Group has taken legal action against the debtors to recover the amount due.

Liquidity risk

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

The management will closely monitor the cash flow generated from operations and the Group's needs for different types of external financing and will negotiate for proper facilities and consider proper means of equity financing as appropriate.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand or less than 1 month	1–3 months	Over 3 months but less than 1 year	1–5 year	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2020							
Non-derivative financial liabilities and lease liabilities							
Trade and bills payables	–	5,622,316	–	–	–	5,622,316	5,622,316
Other payables	–	171,733	–	–	–	171,733	171,733
Amounts due to related companies	–	15,878	–	–	–	15,878	15,878
Borrowings	3.90%	445,160	1,048,187	718,430	–	2,211,777	2,195,451
Lease liabilities	4.75%	–	2,291	6,666	4,684	13,641	13,484
		6,255,087	1,050,478	725,096	4,684	8,035,345	8,018,862

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate	Repayable on demand or less than 1 month	1–3 months	Over 3 months but less than 1 year	1–5 year	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2019							
Non-derivative financial liabilities and lease liabilities							
Trade and bills payables	–	3,633,152	–	–	–	3,633,152	3,633,152
Other payables	–	142,541	–	–	–	142,541	142,541
Amounts due to related companies	–	6,412	–	–	–	6,412	6,412
Borrowings	4.50	307,800	78,556	629,955	–	1,016,311	1,005,285
Lease liabilities	4.75	124	1,715	1,261	81	3,181	3,139
		4,090,029	80,271	631,216	81	4,801,597	4,790,529

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair values as at		Fair value hierarchy	Valuation technique and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
	2020 *HK$'000*	2019 *HK$'000*				
Financial asset at FVTPL	**30,666**	30,699	Level 3	Direct comparison - reference to market evidence of recent transaction prices of the underlying or comparable investments	Recent transaction prices of underlying and comparable investments	The higher the transaction prices of underlying investments, the higher the fair value, vice versa.
Bills receivables at FVTOCI	**418,414**	381,023	Level 2	Discounted cash flow — estimated future cash flows are discounted at market interest rate that reflects the time value to the date of settlement.	N/A	N/A

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk *(Continued)*

(ii) Reconciliation of Level 3 fair value measurements

	Structured bank deposits *HK$'000*	Financial asset at FVTPL *HK$'000*	Total *HK$'000*
At 1 January 2019	672,221	31,386	703,607
Purchases	1,224,972	–	1,224,972
Investment income	9,316	–	9,316
Settlements	(1,903,591)	–	(1,903,591)
Exchange adjustments	(2,918)	(687)	(3,605)
At 31 December 2019	–	30,699	30,699
Fair value gains in profit or loss	–	19,435	19,435
Disposal	–	(21,338)	(21,338)
Exchange adjustments	–	1,870	1,870
At 31 December 2020	–	30,666	30,666

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair value of other financial assets and financial liabilities, carried at amortised cost, are determined in accordance with generally accepted pricing models which is based on discounted cash flows analysis using the relevant prevailing market rates as input.

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

35. 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.

	Borrowings *HK$'000* *(Note 29)*	Interest payable *HK$'000*	Dividend payable *HK$'000*	Guarantee fee payable to related companies *HK$'000*	Lease liabilities *HK$'000*	Total *HK$'000*
At 1 January 2019	880,466	7,761	–	–	–	888,227
Adjustment upon application of HKFRS 16	–	–	–	–	9,778	9,778
	880,466	7,761	–	–	9,778	898,005
Financing cash flows	2,064,703	(44,916)	(77,116)	(6,070)	(7,132)	1,929,469
Non-cash transaction Dividend recognised as distribution	–	–	77,116	–	–	77,116
Finance costs	33,875	45,160	–	6,070	306	85,411
Discounted bills	(1,956,704)	–	–	–	–	(1,956,704)
New lease entered	–	–	–	–	244	244
Foreign exchange translation	(17,055)	(169)	–	–	(57)	(17,281)
At 31 December 2019	1,005,285	7,836	–	–	3,139	1,016,260
Financing cash flows	4,620,424	(74,385)	(101,406)	(10,333)	(8,413)	4,425,887
Non-cash transaction Dividend recognised as distribution	–	–	102,821	–	–	102,821
Finance costs	60,975	72,286	–	10,333	536	144,130
Discounted bills	(3,594,315)	–	–	–	–	(3,594,315)
New lease entered	–	–	–	–	17,093	17,093
Foreign exchange translation	103,082	120	–	–	1,129	104,331
At 31 December 2020	2,195,451	5,857	1,415	–	13,484	2,216,207

36. RELATED PARTY DISCLOSURES

(a) Related parties transactions

In addition to those related party transactions disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

Name of company	Notes	Nature of transaction	2020 HK$'000	2019 HK$'000
Immediate and ultimate holding company of the Company				
Sichuan Changhong	(i)	Sales of goods	**13,379**	22,179
		Purchase of goods	**–**	–
		Administrative expenses		
		— rental expenses	**52**	43
		Other income		
		— Telephone and broadband service fee	**–**	427
		Selling and distribution expenses		
		— certificate fee	**60**	6
		Finance cost		
		— guarantee charge	**3,438**	1,062
		— Maximum amount granted	**900,151**	454,400
Shareholder of immediate and ultimate holding company of the Company				
四川長虹電子控股集團有限公司	(ii)	Finance cost		
		— guarantee charge	**6,922**	5,008
		Guarantee to suppliers		
		— Maximum amount granted	**1,395,234**	1,272,320
		Sales of goods	**13,595**	250
		Other income	**–**	22
Fellow subsidiaries of the Company				
四川虹信軟件有限公司	(iii)	Sales of goods	**12,577**	1,943
		Purchase of goods	**755**	879
北京長虹科技有限公司	(iii)	Administrative expenses		
		— rental expenses	**5,389**	5,442
		Other income	**5**	6
四川長虹電子系統有限公司	(iii)	Sales of goods	**–**	175

36. RELATED PARTY DISCLOSURES *(Continued)*

(a) Related parties transactions *(Continued)*

Name of company	Notes	Nature of transaction	2020 HK$'000	2019 HK$'000
Fellow subsidiaries of the Company *(Continued)*				
四川虹微技術有限公司	(iii)	Sales of goods	**141**	22
四川長虹空調有限公司	(iii)	Sales of goods	**–**	7
四川長虹國際酒店有限責任公司	(iii)	Administrative expense		
		— Rental expense	**–**	8
四川快益點電器服務連鎖有限公司	(iii)	Other income	**56**	43
四川長虹物業服務有限公司	(iii)	Administrative expense		
		— rental expenses	**–**	6
四川長虹民生物流有限責任公司	(iii)	Administrative expense		
		— agency fee	**–**	37
		Sales of goods	**–**	9
四川愛創科技有限公司	(iii)	Purchase of goods	**6,652**	3,467
		Sales of goods	**–**	4,092
四川愛聯科技有限公司	(iii)	Purchase of goods	**–**	125
		Other income		
		— technical service fee	**–**	12
		Purchase of goods	**–**	10
四川長虹民生物流股份有限公司	(iii)	Sales of goods	**–**	9
		Selling and distribution expense		
		— storage fee	**45**	37
四川長虹智能製造技術有限公司	(iii)	Sales of goods	**1,270**	1,720
零八一電子集團有限公司	(iii)	Sales of goods	**139**	132
四川長虹電子科技有限公司	(iii)	Sales of goods	**15,540**	2,795
四川智易家網絡科技有限公司	(iii)	Purchase of goods	**–**	218
四川長虹智能科技有限公司	(iii)	Sales of goods	**711**	88
		Other income	**57**	–
中山長虹電器有限公司	(iii)	Sales of goods	**32**	–

36. RELATED PARTY DISCLOSURES *(Continued)*

(a) Related parties transactions *(Continued)*

Name of company	Notes	Nature of transaction	2020 HK$'000	2019 HK$'000
Related company of the Group				
長虹財務	(iv)	Sales of goods	**40**	268
		Finance cost — interest of discounted bill	**19,863**	7,525

(b) Related parties balances

The Group allows a credit period of 55 days for sales to its related parties. As at 31 December 2020, the Group had the following balances with related parties and the respective aging analysis:

Name of company	Notes	Nature of transaction	2020 HK$'000	2019 HK$'000
Immediate and ultimate holding company of the Group				
Sichuan Changhong	(i)	Trade and bills receivables		
		Within 30 days	**6**	–
		31–60 days	**–**	13,354
		Over 60 days	**–**	25
			6	13,379
Fellow subsidiaries of the Company				
四川虹信軟件有限公司	(iii)	Trade and bills receivables		
		31–60 days	**–**	1,554
		61–90 days	**–**	2,694
		91–180 days	**814**	–
		181–365 days	**164**	–
			978	4,248
四川長虹電子系統有限公司	(iii)	Trade and bills receivables		
		Within 30 days	**–**	25

36. RELATED PARTY DISCLOSURES *(Continued)*

(b) Related parties balances *(Continued)*

Name of company	Notes	Nature of transaction	2020 HK$'000	2019 HK$'000
Fellow subsidiaries of the Company *(Continued)*				
四川長虹電子科技有限責任公司	(iii)	Trade and bills receivables		
		Within 30 days	**10**	–
		91–180 days	**7,666**	–
		181–365 days	**4,580**	–
			12,256	–
四川長虹智能製造技術有限公司	(iii)	Trade and bills receivables		
		31–60 days	**290**	1,334
四川長虹智能科技有限公司	(iii)	Trade and bills receivables		
		Within 30 days	**–**	98
Total amounts due from related companies — trade and bills receivables			**13,530**	19,084
Shareholder of immediate and ultimate holding company of the Company				
四川長虹電子控股集團有限公司	(ii) (v)	Other payables	**7,310**	5,159
四川長虹電器股份有限公司	(v)	Other payables	**5,151**	338
		Contract liabilities	**2,287**	–
Fellow subsidiaries of the Company				
四川愛創科技有限公司	(iii) (v)	Trade payables	**160**	–
四川虹信軟件股份有限公司	(iii) (v)	Trade payables	**879**	915
成都長虹電子科技有限責任公司	(iii)	Other payables	**91**	–
Total amounts due to related companies			**15,878**	6,412

36. RELATED PARTY DISCLOSURES *(Continued)*

(b) Related parties balances *(Continued)*

Notes:

(i) Sichuan Changhong holds approximately 69.32% equity interest of the Company.

(ii) 四川長虹電子控股集團有限公司 holds approximately 23.20% equity interest of Sichuan Changhong.

(iii) Sichuan Changhong has controlling interests in these companies.

(iv) Sichuan Changhong holds 50% equity interests in 長虹財務.

(v) The amounts are unsecured, non-interest bearing and repayable on demand.

The details of continuing connected transactions are disclosed in the Report of Directors section of the annual report.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2020 ***HK$'000***	2019 *HK$'000*
Short-term benefits	**23,705**	20,932
Post-employment benefits	**324**	414
	24,029	21,346

The remuneration of directors and management personnel are determined by the remuneration committee having regard to the performance of individuals and market trends.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

General information of subsidiaries

Details of the Group's principal subsidiaries at the end of the reporting periods are set out below.

Name of subsidiaries	Place of incorporation/ registration and operation	Class of shares held	Paid up issued/ registered capital	Proportion ownership interest held by the Company				Proportion of voting power held by the Company				Principal activities
				Directly		Indirectly		Directly		Indirectly		
				2020 %	2019 %	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %	
Changhong (Hong Kong) Enterprises Limited	Hong Kong	Ordinary	HK$10,001	–	–	100	100	–	–	100	100	Investment holding
CHIT 四川長虹佳華信息產品有限責任公司#	PRC	–	RMB200,000,000	–	–	100	100	–	–	100	100	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Changhong IT Digital 四川長虹佳華數字技術有限公司*	PRC	–	RMB50,000,000	–	–	100	100	–	–	100	100	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Beijing Changhong IT Intelligence System Co., Ltd. 北京長虹佳華智能系統有限公司*	PRC	–	RMB50,000,000	–	–	100	100	–	–	100	100	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Changhong IT (Hong Kong) Information Products Co., Limited	Hong Kong	Ordinary	HK$10,000,000	100	100	–	–	100	100	–	–	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd. 四川長虹佳華哆啦有貨電子商務有限公司*	PRC	–	RMB100,000,000	–	–	100	100	–	–	100	100	Provision of professional integrated IT solutions and services and distribution of consumer digital products and others
Sichuan Changhong Cloud Computing Company Limited 四川長虹雲計算有限公司 ("雲計算") (Note)	PRC	–	RMB20,000,000	–	–	100	100	–	–	100	100	Provision of cloud computing services

foreign-invested enterprise

* limited liability company

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

General information of subsidiaries *(Continued)*

Note:

雲計算 is a limited liability company established under PRC law and under the legal ownership of 四川長虹電子控股集團有限公司 (the "PRC Equity Owner"). Under certain agreements (the "VIE Agreements") entered into among the PRC Equity Owner, 雲計算 and a subsidiary of the Group, 四川長虹佳華數字技術有限公司, 四川長虹佳華數字技術有限公司 controls 雲計算 by way of having the voting rights to govern the financial and operating policies, having the power to appoint or remove the directors of 雲計算 and obtaining all the returns of 雲計算. Accordingly, the Group has rights to exercise power over 雲計算, receives variable returns from its involvement in 雲計算, and has the ability to affect the returns from 雲計算 through its power over 雲計算. The Company's directors confirmed that, based on the advice from the Company's PRC legal adviser, the VIE Agreements are legally binding and enforceable against each party in accordance with their terms and provisions under PRC law.

Further details of the contractual arrangements are disclosed in the circular of the Company dated 30 April 2019.

The above 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 all subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

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

Composition of the Group

At the end of the reporting period, the Company had other subsidiaries that are not material to the Group. A summary of these subsidiaries are set out as follows:

Principal activities	Places of incorporation and operation	Number of wholly-owned subsidiaries	
		2020	2019
Investment holding	British Virgin Island	**2**	2

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 HK$'000	2019 HK$'000
Non-current assets		
Plant and equipment	47	45
Investments in subsidiaries (Note a)	1,241,751	1,241,751
	1,241,798	1,241,796
Current assets		
Prepayments, deposits and other receivables	9	159
Amounts due from subsidiaries (Note b)	2	2
Bank balances and cash	1,505	930
	1,516	1,091
Current liabilities		
Other payables	4,679	6,942
Tax payable	35	35
Dividend payable	1,415	–
Amounts due to subsidiaries (Note b)	481,748	376,079
	487,877	383,056
Net current liabilities	(486,361)	(381,965)
	755,437	859,831
Capital and reserves		
Share capital	36,366	36,366
Convertible preference shares	27,897	27,897
Reserves (Note c)	691,174	795,568
	755,437	859,831

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) As at 31 December 2020, investments in subsidiaries are carried at cost of HK$1,241,751,000 (2019: HK$1,241,751,000).

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

(c) Movements of reserves during both years are as follows:

	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2019	1,837,999	(957,436)	880,563
Loss and total comprehensive expenses for the year	–	(7,879)	(7,879)
Dividends recognised as distribution (Note 12)	(77,116)	–	(77,116)
At 31 December 2019	1,760,883	(965,315)	795,568
Loss and total comprehensive expenses for the year	–	(1,573)	(1,573)
Dividends recognised as distribution (Note 12)	(102,821)	–	(102,821)
At 31 December 2020	1,658,062	(966,888)	691,174

39. EVENTS AFTER THE REPORTING PERIOD

Establishment of a Wholly-owned Subsidiary in Indonesia

The wholly-owned subsidiary of the Group named as "PT. Changhong Jiahua Information Technology Indonesia" has established in Indonesia on 11 February 2021, which will be conducive to the Group to build an international business development platform, seize good market opportunities and effectively promote the development of overseas business. For further details, please refer to the announcements of the Company dated 16 December 2020.

Save as disclosed above, there were no significant events occurred that might affect the Group after 31 December 2020.

FIVE-YEAR SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group for the last five financial years is as follows:

Results

	Year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**40,381,301**	29,999,669	22,098,076	21,024,255	19,063,248
Cost of sales	**(39,302,538)**	(29,040,470)	(21,266,681)	(20,255,406)	(18,306,118)
Gross profit	**1,078,763**	959,199	831,395	768,849	757,130
Other income	**68,657**	52,711	46,266	27,100	28,452
Distribution and selling expenses	**(363,873)**	(328,253)	(306,008)	(285,494)	(298,938)
Administrative expenses*	**(223,940)**	(196,295)	(159,491)	(142,145)	(135,461)
Finance costs	**(144,130)**	(85,411)	(54,011)	(40,224)	(41,017)
Profit before tax	**415,477**	401,951	358,151	328,086	310,166
Income tax expenses	**(70,079)**	(112,785)	(88,001)	(83,560)	(85,402)
Profit for the year from continuing operations	**345,398**	289,166	270,150	244,526	224,764
Profit for the year from discontinued operation	**–**	–	–	–	8,007
Profit for the year	**345,398**	289,166	270,150	244,526	232,771
Profit for the year attributed to:					
Owner of the Company	**345,398**	289,166	270,150	244,526	232,771
Non-controlling interests	**–**	–	–	–	–
	345,398	289,166	270,150	244,526	232,771

* Administrative expenses included research and development expenses, impairment loss on trade receivables, net and exchange (loss) gain, net.

FIVE-YEAR SUMMARY OF FINANCIAL INFORMATION

	Year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit for the year	**345,398**	289,166	270,150	244,526	232,771
Other comprehensive income (expense)					
Items that will not be reclassified to profit or loss:					
Exchange difference arising from translation of consolidated financial statements to presentation currency	**166,783**	(46,501)	(96,038)	111,650	–
Items that may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation of foreign operations	**–**	–	–	–	(98,397)
Other comprehensive income (expense) for the year	**166,783**	(46,501)	(96,038)	111,650	(98,397)
Total comprehensive income for the year	**512,181**	242,665	174,112	356,176	134,374
Total comprehensive income attributable to:					
Owners of the Company	**512,181**	242,665	174,112	356,176	134,374
Non-controlling interests	**–**	–	–	–	–
	512,181	242,665	174,112	356,176	134,374

Assets and Liabilities

	31 December				
	2020	2019	2018	2017	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**10,959,723**	7,282,721	6,047,129	4,699,643	3,810,933
Total liabilities	**(8,651,573)**	(5,383,931)	(4,313,888)	(3,063,398)	(2,453,748)
Total equity	**2,308,150**	1,898,790	1,733,241	1,636,245	1,357,185