長虹佳華
CHANGHONG IT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code : 8016

ANNUAL REPORT 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board of the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of Changhong Jiahua Holdings Limited (the "Company", and collectively with its subsidiaries, the "Group") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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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	Codan Services 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	GEM of The Stock Exchange of Hong Kong Limited
Stock code	8016
Website	www.changhongit.com.hk
E-mail address	Kylen@changhongit.com.hk
Board of Directors	
Executive Directors	Mr. ZHAO Yong (Chairman) Mr. ZHU Jianqiu (President) Mr. YANG Jun Mr. LUO Yongping

CORPORATE INFORMATION

Independent Non-executive Directors	Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dongfeng Mr. CHENG Yuk Kin
Authorised representatives	Mr. ZHU Jianqiu Mr. ZHAO Qilin
Compliance officer	Mr. ZHU Jianqiu
Joint Company Secretaries	Mr. CHENG Ching Kit Mr. ZHAO Qilin
Bermuda resident representative	Codan Services Limited
Audit Committee	Mr. Jonathan CHAN Ming Sun (Chairman) Mr. Robert IP Chun Chung Mr. SUN Dongfeng Mr. CHENG Yuk Kin
Remuneration Committee	Mr. Jonathan CHAN Ming Sun (Chairman) Mr. ZHU Jianqiu Mr. Robert IP Chun Chung Mr. SUN Dongfeng
Nomination Committee	Mr. ZHAO Yong (Chairman) Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dongfeng
Auditor	Deloitte Touche Tohmatsu 35/F, One Pacific Place 88 Queensway, Admiralty Hong Kong

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZHAO Yong, aged 56, joined the Company as an executive Director and the chairman of the Board in April 2013. Mr. Zhao is the chairman and director both Sichuan Changhong Electronics Holding Group Company Limited ("Sichuan Changhong Holding", and collectively with its subsidiaries, the "Sichuan Changhong Electric Group") and Sichuan Changhong Electric Co., Limited ("Sichuan Changhong") and also served as the deputy mayor of Mianyang, Sichuan Province, the People's Republic of China (the "PRC") from June 2001 to June 2004. He is also the chairman and director of the Company's subsidiaries of Changhong IT Information Products Company Limited ("Changhong IT"), Changhong IT Digital Technology Co., Ltd. ("Changhong IT Digital"), Beijing Changhong IT Intelligence System Co., Ltd. ("Changhong IT Intelligence") and Sichuan Changhong IT Duolayouhuo E-Commerce Co., Ltd. ("Duolayouhuo"). He holds a Master Degree in Mechanical Engineering and a Doctoral Degree in Engineering and Thermal Dynamics Engineering from Tsinghua University（清華大學）in the PRC and has more than 26 years of experience in general management.

Mr. ZHU Jianqiu, aged 57, joined the Company as an executive Director and the president of the Company in April 2013. Mr. Zhu is responsible for the overall operation and management of the Group (to be defined below). Mr. Zhu is also the director and chief executive officer of each of the following subsidiaries of Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT (Hong Kong) Information Products Co., Ltd. ("Changhong IT Information") and Duolayouhuo, and the executive director of Changhong (Hong Kong) Enterprises 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 21 years of experience in information technology ("IT") industry management.

Mr. YANG Jun, aged 49, joined the Company as an executive Director in May 2007. Mr. Yang is primarily responsible for the capital operation of the Group. He is a director both Sichuan Changhong Holding and Sichuan Changhong, and is also the duty general manager of Sichuan Changhong Holding. He serves in various positions within the Sichuan Changhong Electronics Group. He is also the director each of the following subsidiaries of Changhong IT, Changhiong IT Digital, Changhong IT Intelligence, Changhong IT Information and Duolayouhuo. He graduated from Chengdu Technological University（成都工業學院）in June 1991 and completed a master degree programme on business administration at the Business School of Sichuan University（四川工商管理學院）in July 2005. He has over 20 years of experience in corporate investment and corporate governance.

Mr. LUO Yongping, aged 44, 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 holds a management position in Sichuan Provincial Investment Group Co., Ltd. ("Sichuan Provincial Investment Group") and serves as directors in certain subsidiaries of Sichuan Provincial Investment Group (such as Sichuan Investment Management Co., Ltd.). Mr. Luo obtained a bachelor's degree in Archival science from Sichuan University in July 1997 and a master's degree in history from Sichuan University in July 2000 and has over 10 years experience in corporate management.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan CHAN Ming Sun, aged 47, joined the Company as an independent nonexecutive 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 Shenyang Public Utility Holdings Company Limited (stock code: 747), 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 Far East Holdings International Limited (stock code: 36), during 14 November 2014 to 18 July 2017, L&A International Holdings Limited (stock code: 8195), during 25 September 2014 to 3 March 2017, Focus Media Network Limited (stock code: 8112), during 21 April 2015 to 27 November 2015, and Dining Concepts Holdings Limited (stock code: 8056), during 27 July 2016 to 12 December 2018. He obtained his Bachelor Degree of Commerce in Accounting and Computer 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. Robert IP Chun Chung, aged 63, joined the Company as an independent non-executive director in February 2007. Mr. Ip is the member of Audit Committee, remuneration committee and nomination committee of the Company. He is a practising solicitor in Hong Kong and is a non-executive director of Poly Property Group Co., Limited (stock code: 119), a company listed on the Stock Exchange. He was also an independent non-executive director of Value Convergence Holdings Limited (stock code: 821), a company listed on the Stock Exchange, during the period from 5 March 2012 to 7 October 2016. He obtained the Bachelor Degree in Arts from University of Hong Kong and held a CPE Diploma and Diploma in Law from the College of Law, UK. He is also a member of the Law Society of Hong Kong and the Law Society of England and Wales. He has over 37 years of experience in legal aspects.

Mr. SUN Dongfeng, aged 51, joined the Company as an independent non-executive Director in February 2007. Mr. Sun is the member of Audit Committee, remuneration committee and nomination committee of the Company. He is a senior partner of Guantao Law Firm as well as a legal advisor for a number of companies. He graduated from China University of Political Science and Law in the PRC, and obtained a Master Degree of Law in International Economics from the School of Law of University of Canberra, Australia. He has over 28 years of experience in legal aspects.

Mr. CHENG Yuk Kin, aged 44, joined the Company as an independent non-executive Director in November 2012. Mr. Cheng is a member of Audit Committee. He is the managing director of Canfield Corporate Finance Co. Limited and was an independent non-executive director of On Real International Holdings Limited (stock code: 8245) during the period from 16 September 2015 to 31 July 2017, a company listed on the Stock Exchange. He obtained his Bachelor Degree of Business Administration in Finance from Hong Kong University of Science and Technology and obtained a Master Degree of Business Administration from the George Washington University School of Business in United States of America. He is also a member of American Institute of Certified Public Accountants. He has over 22 years of experience in corporate finance and audit.

Note:

The appointment of Mr. Jonathan CHAN Ming Sun as the independent non-executive director of Up Energy Development Group Limited (stock code: 307) ("Up Energy") is under dispute. For details, please refer to the relevant announcements of Up Energy.

SENIOR MANAGEMENT

Ms. SU Huiqing, aged 50, is the vice president of each 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 administrative of the Group. She holds a Bachelor Degree in Automation from Shanghai Jiaotong University and has more than 26 years of experience in business development in the IT industry.

Ms. YANG Na, aged 38, was appointed as the Financial Controller in November 2017. She is currently the financial controller each of Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information and Duolayouhuo. 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 16 years of experience in accounting and financial management.

JOINT COMPANY SECRETARIES

Mr. ZHAO Qilin, was appointed to be a Joint Company Secretary and Authorised Representative in November 2017. Prior to his appointment as a Joint Company Secretary, he was the financial controller of the Company. Mr. Zhao is also an executive director of Changhong (Hong Kong) Enterprises Ltd.. He is the secretory of Board of Changhong IT, Changhong IT Digital, Changhong IT Intelligence and Duolayouhuo. He holds a Bachelor Degree in Economics from Southwestern University of Finance and Economics in the PRC.

Mr. CHENG Ching Kit, was appointed as a Joint Company Secretary in June 2018. Mr. Cheng is an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specialising in corporate services and has over 6 years of experience in corporate secretarial field. He is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. In addition, he holds a Bachelor of Commerce degree in finance from the University of Queensland, Australia.

Save as disclosed in this paragraph, as at 31 December 2018, none of the directors or senior management holds any other position within the Group.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2018, the business of the Group continued to operate in a prudent manner, along with the growth of global economy.

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2018 was approximately HK$22,098.08 million (2017: HK$21,024.26 million), representing a increase of 5.11% as compared with the previous year. The Group achieved stable operation during the year ended 31 December 2018.

- Profit for the year ended 31 December 2018 was approximately HK$270.15 million (2017: HK$244.53 million), representing a increase of 10.48% as compared with the previous year. This increase was mainly attributable to the improvement of operational efficiency as a result of the Group's further control over its operational costs.

- Total comprehensive income for the year ended 31 December 2018 was approximately HK$174.11 million (2017: HK$356.18 million). This decrease was attributable to the Fluctuations in the RMB exchange rate.

BUSINESS REVIEW

2018 BUSINESS REVIEW

In 2018, the overall growth of the world economy was moderate, and the major developed economies maintained relatively strong growth. However, the economic momentum slowed down, the US protectionism and unilateralism emerged frequently, and the international economic and trade rules had shown a trend of undergoing profound adjustment. Affected by major changes in the domestic and international environment, China's economy faced increased downward pressure in 2018, but it remained stable on the whole with some progress through adopting a loosely-oriented monetary policy and a more proactive fiscal policy. Various new technologies such as artificial intelligence, blockchain, big data, cloud computing and Internet of Things are accelerating industrial innovation and application, and the digitization transformation has become the main theme in the market. In 2018, the Group implemented the marketing network strategy of online and offline omnichannel expansion, aiming to strengthen the segmentation and management of channels and tap the channel value. At the same time, we continued to deepen our strategic upgrading and completed the business layout for the big data, cloud services and hardware and software infrastructures, forming a satisfactory business scale, gaining solid market position and winning good reputation among upstream and downstream enterprises; and in terms of the internet distribution business, we solidify the basic business and upgraded the internet platforms in an effort to build the network-based and three-dimension distribution platforms and ecological systems. The scale and revenue of the Group's main business continued to grow steadily in 2018.

In 2018, the Group recorded revenue of approximately HK$22,098.08 million, representing an increase of 5.11% as compared with that in the corresponding period of the last financial year. The gross profit margin in 2018 was 3.76%, representing an increase of approximately 0.11% as compared with that in the corresponding period of the last financial year. In 2018, profit attributable to shareholders amounted to approximately HK$270.15 million, representing an increase of approximately 10.48% as compared with that in the corresponding period of the last financial year, and basic earnings per share amounted to HK 10.51 cents, representing an increase of HK 1.00 cents as compared with HK9.51 cents in the corresponding period of the last financial year.

CHAIRMAN'S STATEMENT

The Group continued to strengthen its basic management and carried on strengthening the information technology construction as well as transforming and optimizing the business process so as to improve its operational efficiency. In addition, the Group adhered to strict credit management and accounts receivable management. The turnover ratio of receivables slight decreased as compared with that in the corresponding period of the last financial year due to the lowered settlement speed of cash during the whole year as a result of the expansion of the e-commerce sales business with long accounts receivable periods and the growth of IT corporate products sales. The inventory balance at the end of this financial year increased compared with the same period last year due to concentrated purchase at the end of the year. The Group continued to strengthen its cost control. The distribution and sales expenses was basically the same as those of the same period of last year; the administrative expenses increased significantly as compared with the corresponding period of last year due to the increase in the number of technical personnel and related expenses; and the finance costs increased as compared with the corresponding period of last year due to the rising interest rates on loans.

The analyses of turnover and profit for the three operating segments of the Company as of 31 December 2018 are as follows (Fluctuations in the RMB exchange rate may affect the numbers/percentages of segment):

IT consumer products distribution business: in response to the continued decline in PC market demand and the pressure from e-commerce enterprises, the Group strengthened its cooperation between core manufacturers and e-commerce enterprises, and introduced new product lines to give full play to its advantage of channel resources and expand its marketing model and scale. Revenue in this segment increased by 2.26% to HK$11,053.22 million as compared with the corresponding period of last year, while its profit increased by 6.43% to HK$206.90 million.

IT corporate products distribution business: we actively expanded new brands and new product lines and strengthened cooperation and layout with upstream manufacturers in the cloud business which was expected to form an organic combination with existing businesses. By leveraging the internationally leading big data analysis technology, we explored and analyzed channel resources and industry needs to deepen the application and development of solutions based on cloud computing, big data and artificial intelligence and other technologies. Revenue in this segment increased by 25.46% to HK$6,976.55 million as compared with the corresponding period of last year, while its profit increased by 18.72% to HK$304.74 million.

Other business: revenue in this segment decreased by 12.59% to HK$4,068.31 million as compared with the corresponding period of last year due to the decline in the sales of smartphones. Profit in this segment decreased by 13.62% to HK$12.00 million due to loss incurred as a result of the disposal of LBS product inventory.

On 28 December 2018, Ms. SHI Ping has tendered her resignation as an executive Director with effect from 31 December 2018 in order to devote more time to more time to her retirement. Mr. LUO Yongping has been appointed as an executive Director with effect from 1 January 2019. For further details, please refer to the announcement of the Company dated 28 December 2018.

Mr. LI Jin has tendered his resignation as executive Director with effect from 15 January 2019 in order to devote more time to his other business commitment. Mr. Li Jin would also cease to be the alternate director of Mr. Zhao Yong, the chairman of the Board and an executive Director, with effect from 15 January 2019. For further details, please refer to the announcement of the Company dated 15 January 2019.

OUTLOOK

Looking forward to 2019, global economic growth is expected to slow down, while the economic uncertainty and instability will pile up. The external environment facing China remains grim, and China's economy is still exposed to great downward pressure. However, with the increase in the reverse regulation effect of macro policies and the sustained release of policy effects, it is expected that China's economy will rally gradually in the second half of 2019 with a "First Low, Then Stable" growth momentum throughout the year. China will continue to promote the deep integration and application of next-generation information and communication technologies and industries such as big data, cloud computing, artificial intelligence, Internet of Things and 5G, and promote the emergence of new technologies, new products, new industries, new formats and new models. In 2019, the Group will keep on promoting the strategic upgrading towards becoming a IT comprehensive service provider, and carry on the implementation of the business strategy of "All Channels, Specialization, New Distribution, and Good Partners", and hence establish a new IT comprehensive services system based on the business policy of "Professional Exploration and Growth of Value", and strive to build and expand independent intellectual property solutions, promote value added continuously and enhance the ability to serve customers by enhancing technology implementation and service capabilities, make every effort to increase the stickiness of customers and channels to get closer to the end customers, and end up to help customers achieve the digitalization transformation while making a greater contribution to shareholders. The Group is planning to set up a third-party e-commerce platform in Mainland China. Once it is materialise, the company will announce the details in a timely manner.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2018, the Group's financial and liquidity positions remained healthy and stable. As at 31 December 2018, the aggregate outstanding borrowings of the Group were approximately HK$880.47 million (2017: HK$459.82 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$513.35 million (2017: HK$597.65 million), together with trade and bills receivables amounting to approximately HK$1,687.17 million (2017: HK$1,494.68 million). For the year ended 31 December 2018, the Group's net current assets amounted to approximately HK$1,644.72 million (2017: HK$1,554.38 million) and the Group did not have any charges on its fixed assets (2017: Nil). The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 31 December 2018 was 2.49 times (2017: 1.87 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 2018, 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.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2018, the total number of the Group's staff was 1,038 (2017: 1,063 staff). For the year ended 31 December 2018, total staff costs (including Directors) amounted to approximately HK$256.90 million (2017: HK$221.75 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 2018, there were no outstanding share options granted or exercised as the share option scheme previously adopted by the Company had expired.

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 IT consumer and corporate distribution 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

The Group did not have any significant investments, acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

The Group will continue to devote to the IT 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 2018, the Group did not have any material contingent liabilities.

EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR

There were no significant events occurred that might affect the Group after 31 December 2018.

PRINCIPAL RISKS AND UNCERTAINTIES FACED BY THE COMPANY

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.

CHAIRMAN'S STATEMENT

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.

ZHAO Yong
Chairman

25 March 2019

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 GEM Listing Rules which sets out corporate governance principles and code provisions (the "Code Provisions"). Throughout the year ended 31 December 2018, the Company has complied with all the Code Provisions as set out 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 quarterly, 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.

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 Company's Bye-laws (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.

CORPORATE GOVERNANCE REPORT

The Board currently comprises 8 members and their positions are as follows:

Executive Directors

Mr. ZHAO Yong (Chairman)
Mr. ZHU Jianqiu (President)
Mr. LI Jin (resigned with effect from 15 January 2019)
Mr. YANG Jun
Ms. SHI Ping (resigned with effect from 31 December 2018)
Mr. LUO Yongping (appointed with effect from 1 January 2019)

Independent Non-Executive Directors

Mr. Jonathan CHAN Ming Sun
Mr. Robert IP Chun Chung
Mr. SUN Dongfeng
Mr. CHENG Yuk Kin

The Directors have disclosed to the Company their positions held in other public companies, organizations or their associate & companies. The information regarding their directorships in other public companies is set out in the biographies of Directors and senior management on pages 5 to 7 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. 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. LUO Yongping has entered into a service contract with the Company with no fixed term, and is 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.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

Board meetings are held at least once a quarter and during any given financial year when necessary. During the year ended 31 December 2018, the Board held 7 meetings and the details of the attendance of the Directors at the meetings of the Board and the committees and the general meeting were as follows:

Name of Directors	Annual general meeting	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting
Executive Directors					
Mr. ZHAO Yong	1/1	6/7	N/A	2/2	N/A
Mr. ZHU Jianqiu	1/1	7/7	N/A	N/A	2/2
Mr. LI Jin (resigned with effect from 15 January 2019)	1/1	5/7	N/A	N/A	N/A
Mr. YANG Jun	1/1	7/7	N/A	N/A	N/A
Ms. SHI Ping (resigned with effect from 31 December 2018)	1/1	6/7	N/A	N/A	N/A
Mr. LUO Yongping (appointed with effect from 1 January 2019)	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Jonathan CHAN Ming Sun	1/1	7/7	5/5	2/2	2/2
Mr. Robert IP Chun Chung	1/1	6/7	5/5	2/2	2/2
Mr. SUN Dongfeng	1/1	7/7	5/5	2/2	2/2
Mr. CHENG Yuk Kin	1/1	7/7	5/5	N/A	N/A

Except for the annual general meeting, the Company did not held any other general meeting during the year ended 31 December 2018.

During the Board meetings, the Board discussed and formulated the overall strategies of the Group, reviewed and monitored the business performances. The quarterly, 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, Nomination Committee 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 all or part of the Directors in 2018 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 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 2018, each of the Directors, namely, Mr. ZHAO Yong, Mr. ZHU Jianqiu, Mr. LI Jin, Mr. YANG Jun, Ms. SHI Ping, Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin, 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/regulatory authorities or by reading materials relevant to the Company's business or to their duties and responsibilities. Each of Mr. ZHAO Qilin and Mr. CHENG Ching Kit, 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 during the year ended 31 December 2018.

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 2018 is recorded in the table below.

	Reading Regulatory updates	**Training courses provided by hired law firm/ regulatory authorities**
Executive Directors		
Mr. ZHAO Yong	✓	✓
Mr. ZHU Jianqiu	✓	✓
Mr. LI Jin (resigned with effect from 15 January 2019)	✓	✓
Mr. YANG Jun	✓	✓
Ms. SHI Ping (resigned with effect from 31 December 2018)	✓	✓
Independent Non-executive Directors		
Mr. Jonathan CHAN Ming Sun	✓	✓
Mr. Robert IP Chun Chung	✓	✓
Mr. SUN Dongfeng	✓	✓
Mr. CHENG Yuk Kin	✓	✓

	Reading Regulatory updates	Training courses provided by hired law firm/ regulatory authorities/ professional associations
Joint Company Secretaries		
Mr. ZHAO Qilin	✓	✓
Ms. KO Nga Kit (resigned with effect from 15 June 2018)	✓	✓
Mr. CHENG Ching Kit (appointed with effect from 15 June 2018)	✓	✓

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 2018, Mr. ZHAO Yong acted as chairman of the Board and Mr. ZHU Jianqiu acted as president of the Company.

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, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng have 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 independent non-executive Directors, Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin will retire at the forthcoming annual general meeting of the Company (the "AGM"). Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin will not offer themselves for re-election at the AGM while Mr. Johnathan CHAN Ming Sun, being eligible, has offered himself for re-election. Details of the reasons why the Board believes Mr. Jonathan CHAN Ming Sun is still independent and should be re-elected are set out in the circular to be despatched to the Shareholders to be sent together with this Annual Report.

All independent non-executive Directors have confirmed their independence pursuant to Rule 5.09 of the GEM 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. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin. 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 2018, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited quarterly results for the three months ended 31 March 2018 and the nine months ended 30 September 2018, unaudited interim results for the six months ended 30 June 2018 and the audited annual results for the year ended 31 December 2017, 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 2018, the Audit Committee held five meetings and the details of attendance was set out on page 17 of this report. The annual results for the year ended 31 December 2018 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, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng. 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 2018, 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 2018.

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 2018, the Remuneration Committee held two meetings and the details of attendance was set out on page 17 of this report.

NOMINATION COMMITTEE

Membership

The members of Nomination Committee are Mr. ZHAO Yong (Chairman), Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng. Majority of the members are independent non-executive Directors.

Nomination Procedure

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

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 2018, 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 2018.

The Board has the authority to determine the appointment while the Nomination Committee acted as advisor. During the year ended 31 December 2018, the Nomination Committee had held two meetings and the details of attendance are set out on page 17 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 2018, 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 standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules, 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, consumer and corporate IT 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 GEM 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 GEM Listing Rules, applicable laws and regulations, operation and governance policies of the Company. All newly-appointed Directors are subject to re-election at the forthcoming 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 meeting of the Company.

JOINT COMPANY SECRETARIES

The joint company secretaries of the Company are Mr. ZHAO Qilin ("Mr. Zhao") and Mr. CHENG Ching Kit ("Mr. Cheng").

Mr. Cheng is an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specialising in corporate services, and assists Mr. Zhao in company secretarial affairs. The primary corporate contact person of Mr. Cheng at the Company is Mr. Zhao.

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 2018 is set out below:

Remuneration band	Number of individuals
HKD500 thousand to 3,000 thousand	2
HKD3,000 thousand or above	2

Further particulars of Directors' emoluments and the five highest paid individuals discloseable pursuant to Rule 18.30 of the GEM Listing Rules are set out in notes 11 to the consolidated financial statements as set out on pages 106 to 109 of this annual report.

DIVIDEND POLICY

The company's dividend declaration and approval are implemented in accordance with Bye-laws 133 to 142 and the GEM 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

On 22 December 2016, Deloitte Touche Tohmatsu ("Deloitte") has been appointed as the new auditor of the Company due to the resignation of SHINEWING (HK) CPA Limited ("SHINEWING") on 20 December 2016 as the Company and SHINEWING could not reach consent of the 2016 annual audit fee. For details, please refer to the announcement of the Company dated 22 December 2016.

During the year ended 31 December 2018, 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$2,200,000 and the sum for other services included tax services amounted to HK$100,000 for the year ended 31 December 2018.

Deloitte, as the external auditor of the Company for the year ended 31 December 2017 attended the 2018 annual general meeting of the Company held on 18 May 2018 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.

Save as disclosed above, 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 2018. 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.

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

CORPORATE VISION

– To become a remarkable IT 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 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 IT 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 2018.

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 38 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2018 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 12 to 13 of this annual report. An analysis of the Group's performance during the year ended 31 December 2017 using financial key performance indicators is set out in the Group's Five-year Financial Summary on pages 31 to 32 of this annual report.

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; 6) 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 24 cities including Mainland China and Hong Kong. In 2018, the electricity consumption involved 978 tons (2017: 949 tons) of carbon emissions, which was an increase of 3.06% compared with that of last year. (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 2018, the fuel usage involved carbon emissions of 12.3 tons (2017: 12.6 tons), which was 2.38% lower than that of last year. (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: 2.2631Kg/L)

iii Use of paper-The Group's paper usage was 0.89 million in 2018 (2017: 1.08 million), which was a decrease of 17.59% compared with that of last year.

iv Use of packaging materials-In 2018, the Group used 0.42 tons of carton packaging materials and used 0.26 tons per 10,000 products.

During the year ended 31 December 2017, 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 2017, 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 2018, there were no material and significant disputes between the Group and its customers, suppliers, employees and/or other stakeholders.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 55 to 57 of this annual report.

The Board recommended the payment of final dividend of HK$0.03 per share of the Company (the "Share(s)") in respect of the year ended 31 December 2018 (2017: HK$0.03 per Share), 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 Wednesday, 12 June 2019 to all Shareholders whose name appear on the register of members of the Company at the close of business on 24 May 2019 and is subject to approval by the Shareholders at the AGM.

The declared final dividend for the year ended 31 December 2017 of HK$77,115,600 (HK$0.03 per Share) was paid on 7 June 2018.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The AGM is scheduled to be held on Friday, 17 May 2019. The Company's register of members will be closed from Tuesday, 14 May 2019 to Friday, 17 May 2019, 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 Friday, 10 May 2019.

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The Company's register of members will be closed from Monday, 27 May 2019 to Wednesday, 29 May 2019, both days inclusive, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend of HK$0.03 per Share for the year ended 31 December 2018, 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, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2019. The proposed final dividend will be paid to Shareholders whose names appear on the register of members of the Company on Friday, 24 May 2019.

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				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**22,098,076**	21,024,255	19,063,248	19,839,112	17,558,794
Cost of sales	**(21,266,681)**	(20,255,406)	(18,306,118)	(19,030,068)	(16,796,745)
Gross profit	**831,395**	768,849	757,130	809,044	762,049
Other income	**46,266**	27,100	28,452	20,566	27,166
Distribution and selling expenses	**(306,008)**	(285,494)	(298,938)	(335,515)	(300,995)
Administrative expenses*	**(159,491)**	(142,145)	(135,461)	(171,345)	(148,460)
Finance costs	**(54,011)**	(40,224)	(41,017)	(52,428)	(62,302)
Profit before tax	**358,151**	328,086	310,166	270,322	277,458
Income tax expenses	**(88,001)**	(83,560)	(85,402)	(71,605)	(80,352)
Profit for the year from continuing operations	**270,150**	244,526	224,764	198,717	197,106
Profit (Loss) for the year from discontinued operation	**–**	–	8,007	(66,968)	(3,810)
Profit for the year	**270,150**	244,526	232,771	131,749	193,296
Profit for the year attributed to:					
Owner of the Company	**270,150**	244,526	232,771	131,749	185,110
Non-controlling interests	**–**	–	–	–	8,186
	270,150	244,526	232,771	131,749	193,296

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

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit for the year	**270,150**	244,526	232,771	131,749	193,296
Other comprehensive (expense) income					
Items that will not be reclassified to profit or loss:					
Exchange difference arising from translation of consolidated financial statements to presentation currency	**(96,038)**	111,650	–	–	–
Items that may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation of foreign operations	**–**	–	(98,397)	(74,801)	(7,510)
Other comprehensive income for the year	**(96,038)**	111,650	(98,397)	(74,801)	(7,510)
Total comprehensive (expense) income for the year	**174,112**	356,176	134,374	56,948	185,786
Total comprehensive income attributable to:					
Owners of the Company	**174,112**	356,176	134,374	56,948	177,965
Non-controlling interests	**–**	–	–	–	7,821
	174,112	356,176	134,374	56,948	185,786

Assets and Liabilities

	31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**6,047,129**	4,699,643	3,810,933	4,176,364	4,504,684
Total liabilities	**(4,313,888)**	(3,063,398)	(2,453,748)	(2,902,143)	(3,236,001)
Total equity	**1,733,241**	1,636,245	1,357,185	1,274,221	1,268,683

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 26 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 2018, 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 2018 and as at the latest practicable date prior to the issue of this report, the Company maintained a sufficient public float of more than 25% in the issued share capital of the Company pursuant to the GEM Listing Rules.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company had several reserve accounts available for distribution, in the amount of approximately HK$880.56 million, which may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 31 December 2018, sales to the Group's five largest customers accounted for approximately 14.93% of the total sales for the year and sales to the largest customer included therein amounted to approximately 11.96%. Purchases from the Group's five largest suppliers accounted for approximately 48.15% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 17.10%.

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.

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 2018.

DIRECTORS

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

Executive directors:

Mr. ZHAO Yong
Mr. ZHU Jianqiu
Mr. LI Jin (resigned with effect from 15 January 2019)
Mr. YANG Jun
Ms. SHI Ping (resigned with effect from 31 December 2018)
Mr. Luo Yongping (appointed with effect from 1 January 2019)

Independent non-executive directors:

Mr. Jonathan CHAN Ming Sun
Mr. Robert IP Chun Chung
Mr. SUN Dongfeng
Mr. CHENG Yuk Kin

In accordance with clauses 83 and 84 of the Bye-laws, Mr. Luo Yongping, Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin will retire at the AGM. Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin will not offer themselves for re-election at the AGM as they wish to devote more time on pursuance of their own businesses, while Mr. Luo Yongping and Mr. Johnathan CHAN Ming Sun, being eligible, have offered 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 5 to 7 of this annual report.

DIRECTORS' SERVICE CONTRACTS

All Directors (including the Directors proposed for re-election at the AGM) entered into a fixed-term service contract with the Company which is renewable automatically per annum.

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

No charitable and other donations was made by the Group during the year ended 31 December 2018 (2017: nil).

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2018.

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 course of the financial year ended 31 December 2018 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 2018.

DIRECTORS' INTERESTS TRANSACTIONS, ARRANGEMENTS AND IN CONTRACTS OF SIGINIFICANCE

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 2018.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2018, 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 required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Name of Director	**Capacity**	**Number of Shares held** *(Note a)*	**Approximate percentage of interest** %
Mr. Zhu Jianqiu ("Mr. Zhu") *(Note b)*	Interest in a controlled corporation	82,415,762 (L)	5.67

Note:

(a) (L) represents long position.

(b) Mr. Zhu is the sole shareholder of Typical Faith Limited, which in turn held 82,415,762 Shares.

Save as disclosed in this paragraph, as at 31 December 2018, 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 required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2018 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 2018, 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 positions 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 Shareholder	Capacity	Class of Shares	Number of Shares held *(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 Preference	1,008,368,000 (L) *(Note c)* 1,115,868,000 (L) *(Note d)*	69.32% 100.00%
Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong")	Interest of controlled corporation and beneficial owner	Ordinary Preference	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 Preference	897,000,000 (L) 1,115,868,000 (L)	61.66% 100.00%

Name of substantial Shareholder	Capacity	Class of Shares	Number of Shares held *(Note a)*	Approximate percentage of interest in relevant class of Shares *(Note b)*
Sichuan Investment Management Company Limited ("Sichuan Investment Management") *(Note f)*	Beneficial owner	Ordinary	83,009,340 (L)	5.70%
Sichuan Provisional Investment Group Company Limited ("Sichuan Provisional Investment Group") *(Note f)*	Interest of controlled corporation	Ordinary	83,009,340 (L)	5.70%
Typical Faith Limited *(Note g)*	Beneficial owner	Ordinary	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 2018, which were 1,454,652,000 and 1,115,868,000, respectively.

(c) Of the 1,008,368,000 Shares held by Sichuan Changhong, 95,368,000 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.

(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) Of the 913,000,000 Shares 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) Sichuan Investment Management is wholly-owned by Sichuan Investment Group, which is deemed to be interested in the Shares held by Sichuan Investment 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 2018, 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 substantial 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 in this paragraph, 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) 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.

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 Electronics Group Co., Ltd. ("Sichuan Changhong Electronics") and Fit Generation Holding Limited ("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 2018.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Saved as the related party transactions disclosed in note 37 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 2018.

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 (the "Code of Conduct") as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct for securities transactions. 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.

INTEREST OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.20 of the GEM Listing Rules, the Company has appointed Lego Corporate Finance Limited ("Lego Corporate Finance") as the compliance adviser. Lego Corporate Finance, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. Neither Lego Corporate Finance nor any of its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company or in the share capital of any member of the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules as at the date of this report, except for the compliance adviser agreement entered into between the Company and Lego Corporate Finance.

INVESTOR RELATIONS

Constitutional documents

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

CONTINUING CONNECTED TRANSACTIONS

During the year 2018, the following continuing connected transactions were carried out by the Group.

(a) Master Supply Agreement

On 27 November 2017, the Company entered into a framework agreement (the "2018 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 2018 to 31 December 2018 (both days inclusive). In accordance with the 2018 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 2018. Pursuant to the 2018 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 2018, the transaction amount under the 2018 Master Supply Agreement is subject to a cap of RMB49 million (2017: RMB60 million). 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. Accordingly, the transactions contemplated under the 2018 Master Supply Agreement constituted continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As the highest of the applicable percentage ratios of the annual cap in respect of the annual transaction amount under the 2018 Master Supply Agreement was more than 0.1% but less than 5%, the transactions under the 2017 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.

The Directors were of the view that the entering into of the 2018 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 2018 Master Supply Agreement, please refer to the announcement of the Company dated 27 November 2017.

For the year ended 31 December 2018, the sale made under the 2018 Master Supply Agreement amounted to approximately RMB27.08 million (2017: approximately RMB15.93 million) in total. The 2018 Master Supply Agreement expired on 31 December 2018. On 28 December 2018, the Company entered into a framework agreement (the "2019 Master Supply Agreement") with Sichuan Changhong Holding, 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 2019 to 31 December 2019 (both days inclusive). The transaction amount under the 2019 Master Supply Agreement shall not exceed RMB40 million. For details of the 2019 Master Supply Agreement, please refer to the announcement of the Company dated 28 December 2018.

(b) Master Purchase Agreement

On 27 November 2017, the Company entered into a framework agreement (the "2018 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 2018 to 31 December 2018 (both days inclusive). In accordance with the 2018 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 2018. Pursuant to the 2018 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 2018, the transactions amount under the 2018 Master Purchase Agreement was subject to a cap of RMB49 million (2017: RMB5.25 million) under the 2018 Master. As disclosed above, Sichuan Changhong Holding is a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules. Accordingly, the transactions contemplated under the 2018 Master Purchase Agreement constituted continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As the highest of the applicable percentage ratios of the annual cap in respect of the annual transaction amount under the 2018 Master Purchase Agreement was more than 0.1% but less than 5%, the transactions under the 2018 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.

The Directors were of the view that the entering into of the 2018 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 2018 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 2018 Master Purchase Agreement, please refer to the announcement of the Company dated 27 November 2017.

For the year ended 31 December 2018, the purchase made under the 2018 Master Purchase Agreement amounted to approximately RMB2.79 million (2017: approximately RMB0.28 million) in total. The 2018 Master Purchase Agreement expired on 31 December 2018. On 28 December 2018, the Company entered into a framework agreement (the "2019 Master Purchase Agreement") with Sichuan Changhong Holding, 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 2019 to 31 December 2019 (both days inclusive). The transaction amount under the 2019 Master Purchase Agreement shall not exceed RMB40 million. For details of the 2019 Master Purchase Agreement, please refer to the announcement of the Company dated 28 December 2018.

(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, 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. 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.

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.

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.

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.

For the year ended 31 December 2018, 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)*	**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 2018	800,000	800,000	5,000
Actual transaction amount for the year ended 31 December 2018	237,457	240,000	–

(d) House Leases

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

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. 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, 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.

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.

For the year ended 31 December 2018, the Leases were subject to the annual caps and the actual transaction amounts for each of the Lease are as follows:

	Changhong IT Lease *(RMB'000)*	Changhong IT Chengdu Lease *(RMB'000)* *Note*	Changhong IT Intelligence Lease *(RMB'000)* *Note*
Annual cap for the year ended 31 December 2018	5,028	500	873
Actual transaction amount for the year ended 31 December 2018	4,789	437	433

Note:

The Changhong IT Chengdu Lease and the Changhong IT Intelligence Lease have been terminated on 30 November 2018.

Confirmation of Independent Non-executive Directors

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

The Board has received a confirmation from the auditor of the Company with respect to the above continuing connected transactions and the letter stated that for the year ended 31 December 2018:

a) nothing has come to the auditor's attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b) for transactions involving the provision of goods or services by the Group, nothing has come to the auditor's attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

c) nothing has come to the auditor's attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d) with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to the auditor's attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

RELATED PARTY TRANSACTIONS

The related party transactions during the year ended 31 December 2018 as disclosed in note 37 to the consolidated financial statements in this Annual Report fall under the definition of "connected transactions" under the GEM Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 20 of the GEM Listing Rules.

AUDITOR

The financial statements of the Group for the year ended 31 December 2018 were audited by Deloitte Touche Tohmatsu who shall retire and, being eligible, offer themselves for re-appointment at the AGM.

For and on behalf of the Board

ZHAO Yong
Chairman

Hong Kong
25 March 2019

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 55 to 146, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("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 4 and 20 to the consolidated financial statements, allowance for inventories of approximately HK$6,966,000 has been recognised during the year ended 31 December 2018 and the carrying value of inventories was approximately HK$2,337,668,000 (net of allowance for inventories of approximately HK$26,677,000) as at 31 December 2018, which represents 39% 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
Estimated provision of expected credit losses for 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 loss. As disclosed in Notes 4 and 35 to the consolidated financial statements, net impairment loss on trade receivables of approximately HK$1,748,000 has been recognised during the year ended 31 December 2018 and the carrying amount of the Group's trade receivables was approximately HK$1,413,953,000 (net of allowance for credit loss of approximately HK$46,873,000). The Group has applied the simplified approach to measure the loss allowance at life time expected credit loss. Except for long-aged debtors with significant balances or 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 receivables, 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; and • Obtaining the aging report of trade receivables to test aging report of the trade receivables, on a sample basis, to the source documents.

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 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, related safeguards.

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
25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue	5	**22,098,076**	21,024,255
Cost of sales		**(21,266,681)**	(20,255,406)
Gross profit		**831,395**	768,849
Other income	7	**46,266**	27,100
Distribution and selling expenses		**(306,008)**	(285,494)
Research and development expenses		**(26,012)**	(8,842)
Administrative expenses		**(123,485)**	(116,191)
Finance costs	8	**(54,011)**	(40,224)
Impairment loss on trade receivables, net		**(1,748)**	(18,365)
Exchange (loss) gain, net		**(8,246)**	1,253
Profit before tax		**358,151**	328,086
Income tax expenses	9	**(88,001)**	(83,560)
Profit for the year attributable to the owners of the Company	10	**270,150**	244,526
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Exchange differences arising from translation of consolidated financial statements to presentation currency		**(96,038)**	111,650
Total comprehensive income for the year attributable to owners of the Company		**174,112**	356,176
Earnings per share	13		
Basic and diluted (HK cents)		**10.51**	9.51

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Plant and equipment	14	**23,809**	29,255
Intangible assets	15	**35,903**	34,515
Financial asset at fair value through profit or loss	16	**31,386**	–
Available-for-sale investment	16	**–**	21,384
		91,098	85,154
Current assets			
Inventories	20	**2,337,668**	1,976,801
Trade and bills receivables	17	**1,413,953**	1,494,684
Bills receivables at fair value through other comprehensive income	18	**273,218**	–
Prepayments, deposits and other receivables	19	**88,100**	63,006
Amounts due from related companies	37(b)	**7,543**	7,163
Trade deposits paid		**649,981**	475,190
Structured bank deposits	21	**672,221**	–
Pledged bank deposits	22	**179,107**	130,400
Bank balances and cash	22	**334,240**	467,245
		5,956,031	4,614,489
Current liabilities			
Trade and bills payables	23	**2,807,980**	2,043,973
Other payables	24	**246,875**	258,734
Tax payables		**22,061**	6,109
Borrowings	28	**880,466**	459,821
Amounts due to related companies	37(b)	**6,698**	6,778
Contract liabilities	25	**347,231**	–
Customer deposits	25	**–**	284,694
		4,311,311	3,060,109
Net current assets		**1,644,720**	1,554,380
Total assets less current liabilities		**1,735,818**	1,639,534

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current liability			
Government grants	30	**2,577**	3,289
Net assets		**1,733,241**	1,636,245
Capital and reserves			
Share capital	26	**36,366**	36,366
Convertible preference shares	26	**27,897**	27,897
Reserves		**1,668,978**	1,571,982
Total equity		**1,733,241**	1,636,245

The consolidated financial statements on pages 55 to 146 were approved and authorised for issue by the board of directors on 25 March 2019 and are signed on its behalf by:

Zhao Yong
DIRECTOR

Zhu Jianqiu
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Convertible preference shares	Statutory reserve	Merger reserve	Translation reserve	Other reserve	Contributed surplus	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note i)*	*HK$'000* *(Note ii)*	*HK$'000*	*HK$'000* *(Note iii)*	*HK$'000* *(Note iv)*	*HK$'000*	*HK$'000*
At 31 December 2016 and 1 January 2017	36,366	27,897	56,720	(1,248,106)	(135,468)	(203,432)	1,992,231	830,977	1,357,185
Profit for the year	–	–	–	–	–	–	–	244,526	244,526
Exchange differences arising from translation of consolidated financial statements to presentation currency	–	–	–	–	111,650	–	–	–	111,650
Total comprehensive income for the year	–	–	–	–	111,650	–	–	244,526	356,176
Appropriation to statutory reserve	–	–	8,582	–	–	–	–	(8,582)	–
Dividends recognised as distribution *(Note 12)*	–	–	–	–	–	–	(77,116)	–	(77,116)
At 31 December 2017	**36,366**	**27,897**	**65,302**	**(1,248,106)**	**(23,818)**	**(203,432)**	**1,915,115**	**1,066,921**	**1,636,245**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**270,150**	**270,150**
Exchange differences arising from translation of consolidated financial statements to presentation currency	**–**	**–**	**–**	**–**	**(96,038)**	**–**	**–**	**–**	**(96,038)**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(96,038)**	**–**	**–**	**270,150**	**174,112**
Appropriation to statutory reserve	**–**	**–**	**41,967**	**–**	**–**	**–**	**–**	**(41,967)**	**–**
Dividends recognised as distribution *(Note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**(77,116)**	**–**	**(77,116)**
At 31 December 2018	**36,366**	**27,897**	**107,269**	**(1,248,106)**	**(119,856)**	**(203,432)**	**1,837,999**	**1,295,104**	**1,733,241**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

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 2018

	2018	2017
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before tax	**358,151**	328,086
Adjustments for:		
Depreciation for plant and equipment	**3,825**	5,437
Amortisation of intangible assets	**2,581**	306
Finance costs	**54,011**	40,224
Gain on disposal of plant and equipment	**(44)**	(19)
Bank interest income	**(6,669)**	(5,310)
Investment income on structured deposits	**(1,559)**	–
Government grants	**(27,155)**	(17,597)
Allowance for inventories	**6,966**	3,634
Impairment loss on trade receivables, net	**1,748**	18,365
Waive of trade payables	**(5,890)**	–
Reversal of allowance for inventories	**–**	(45)
Waive of customer deposits	**(1,028)**	(2,450)
Written off of software under development	**7,526**	–
Written off of plant and equipment	**1,553**	–
Operating cash flows before movements in working capital	**394,016**	370,631
Increase in inventories	**(474,635)**	(544,759)
Decrease (increase) in trade and bills receivables	**12,057**	(1,290,025)
(Increase) decrease in amount due from related companies	**(734)**	11,008
Increase in bills receivables at fair value through other comprehensive income	**(1,073,516)**	–
(Increase) decrease in trade deposits paid	**(210,224)**	238,945
Increase in prepayments, deposits and other receivables	**(29,153)**	(7,941)
Increase in trade and bills payables	**889,809**	317,782
Increase (decrease) in amount due to related companies	**238**	(7,837)
Increase in other payables	**1,247**	12,579
Increase in contract liabilities	**79,188**	–
Increase in customer deposits	**–**	19,568
Receipt of government grants	**26,079**	15,380
Cash used in operations	**(385,628)**	(864,669)
The PRC tax paid	**(71,258)**	(105,861)
NET CASH USED IN OPERATING ACTIVITIES	**(456,886)**	(970,530)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES		
Placement of structured deposits	**(849,468)**	–
Placement of pledged bank deposits	**(223,271)**	(336,574)
Addition of intangible assets	**(13,261)**	(33,660)
Investment in financial asset at fair value through profit or loss	**(11,372)**	–
Purchase of plant and equipment	**(1,286)**	(2,376)
Investment in available-for-sale investment	**–**	(11,127)
Withdrawal of pledged bank deposits	**166,641**	261,425
Withdrawal of structured deposits	**155,149**	–
Interest received	**6,669**	5,310
Proceeds from disposal of plant and equipment	**49**	45
NET CASH USED IN INVESTING ACTIVITIES	**(770,150)**	(116,957)
FINANCING ACTIVITIES		
Repayments of bank borrowings	**(3,577,805)**	(1,711,731)
Repayments of loan from a related company	**(330,809)**	–
Dividend paid	**(77,116)**	(77,116)
Interest paid	**(28,918)**	(14,757)
Guarantee fee paid	**(6,075)**	(6,465)
New bank borrowings raised	**4,076,029**	1,786,534
Advances on discounted bills	**771,006**	1,254,716
Loan advances from a related company	**283,550**	47,853
NET CASH FROM FINANCING ACTIVITIES	**1,109,862**	1,279,034
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(117,174)**	191,547
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**467,245**	253,282
Effect of foreign exchange rate changes	**(15,831)**	22,416
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**334,240**	467,245

1. GENERAL

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

The Company's shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 38.

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 People's Republic of China (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. In the opinion of the directors of the Company, the ultimate holding company of the Company is Sichuan Changhong as at 31 December 2018. Its immediate holding company is Fit Generation Holding limited, a private company incorporated in the British Virgin Islands.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1 *HKFRS 15 Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contract with customers. Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. Information Technology ("IT") Consumer Products – distribution of IT consumer products which include mainly personal computers, digital products and IT accessories.

2. IT Corporate Products – distribution of IT 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 mobile location-based service products, sales of warranty packages and professional integrated IT solutions and provision of IT services.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 5 and 3, respectively.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 *HK$'000*	**Reclassification** *HK$'000*	**Carrying amount under HKFRS 15 at 1 January 2018** ***HK$'000***
Current liabilities			
Customer deposits	284,694	(284,694)	–
Contract liabilities	–	284,694	284,694

As at 1 January 2018, advances from customers of HK$284,694,000 previously included in customer deposits were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flow for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15 *(Continued)*

Impact on the consolidated statement of financial position

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Current liabilities			
Contract liabilities	347,231	(347,231)	–
Customer deposits	–	347,231	347,231

Impact on the consolidated statement of cash flows

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
OPERATING ACTIVITIES			
Increase in contract liabilities	79,188	(79,188)	–
Increase in customer deposits	–	79,188	79,188

As at 31 December 2018, customer deposits of HK$347,231,000 are classified as contract liabilities. As such, the increase in customer deposits of HK$79,188,000 in the consolidated statement of cash flows is classified as increase in contract liabilities.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.2 HKFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 at the date of initial application, 1 January 2018.

	Notes	**Available-for-sale ("AFS") investment** *HK$'000*	**Trade and bills receivables** *HK$'000*	**Bills receivables at fair value through other comprehensive income ("FVTOCI")** *HK$'000*	**Financial asset at fair value through profit or loss ("FVTPL")** *HK$'000*
Closing balance at 31 December 2017 – HKAS 39		21,384	1,494,684	–	–
Effect arising from initial application of HKFRS 9:					
Reclassification					
From AFS investment	*(a)*	(21,384)	–	–	21,384
From loans and receivables	*(b)*	–	(164,799)	164,799	–
Opening balance at 1 January 2018		–	1,329,885	164,799	21,384

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.2 HKFRS 9 Financial Instruments (Continued)

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

(a) AFS investment

From AFS investment to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investment of HK$21,384,000 was reclassified from AFS investment to financial asset at FVTPL. The fair value as at 1 January 2018 determined by an independent qualified professional valuer approximates the carrying value and no adjustment was made.

(b) Loans and receivables

As part of the Group's cash flow management, the Group has the practice of discounting some of the bills received from debtors to financial institutions before the bills are due for payment and derecognises bills discounted on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables of HK$164,799,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI as at 1 January 2018. The related fair value approximates amortised cost and no adjustment was made.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been grouped based on aging analysis.

ECL for all other financial assets, including bills receivables at FVTOCI, pledged bank deposits, bank balances and cash, other receivables and amounts due from related companies, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment in accordance with the requirements of HKFRS 9. No additional credit loss allowance has been recognised against retained earnings as the amounts involved are insignificant.

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) *HK$'000*	HKFRS 15 *HK$'000*	HKFRS 9 *HK$'000*	1 January 2018 (Restated) *HK$'000*
Non-current assets				
Financial asset at FVTPL	–	–	21,384	21,384
AFS investment	21,384	–	(21,384)	–
Current assets				
Trade and bills receivables	1,494,684	–	(164,799)	1,329,885
Bills receivables at FVTOCI	–	–	164,799	164,799
Current liabilities				
Customer deposits	284,694	(284,694)	–	–
Contract liabilities	–	284,694	–	284,694

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

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

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

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.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

HKFRS 16 Leases (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$13,302,000 as disclosed in Note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$566,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange 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 within the scope of HKAS 17 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.

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.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 into 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.

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the business had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

3. 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 (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, 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 and 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. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) *(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 goods or service is transferred to a customer.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018) *(Continued)*

Goods, services, interests and dividends

Revenue from the sales of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

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

Dividend income from investments is recognised when the rights to receive payment have been established.

Leases

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

The Group as lessee

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") 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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Plant and equipment

Plant and equipment held for use in the production or supply of goods or services, or for administrative purposes 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible and intangible assets

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (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. 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. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal, its value in use and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at 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. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

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 FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; 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. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) *(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. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. 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 (upon application HKFRS 9 with transitions in accordance with Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, bills receivables at FVTOCI, pledged bank deposits, bank balances and cash, other receivables and amounts due from related companies). 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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) *(Continued)*

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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, 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;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) *(Continued)*

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

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.

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 of default 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; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) *(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 adjusted by 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.

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.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables, bills receivables at FVTOCI and other receivables are each assessed as a separate group. Amounts due from related companies, pledged bank deposits and bank balances and cash are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) *(Continued)*

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

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.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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

(i) AFS financial asset

AFS financial asset is non-derivative that is either designated as AFS or is not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

AFS equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) *(Continued)*

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, amounts due from related companies, other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

For AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) *(Continued)*

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

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

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

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

In respect of AFS equity investment, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

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. 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 the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

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. Allowance for inventories, net of approximately HK$6,966,000 (2017: HK$3,589,000) has been recognised during the year ended 31 December 2018. As at 31 December 2018, the carrying amount of inventories was approximately HK$2,337,668,000 (2017: HK$1,976,801,000) (net of allowance for inventories of approximately HK$26,677,000 (2017: HK$24,468,000)).

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on aging of trade receivables as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration 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. In addition, trade receivables with credit impaired are assessed for ECL individually.

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 35(b).

5. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018			
Segments	**IT consumer products** *HK$'000*	**IT corporate products** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Types of goods or service				
Sales of IT products	11,053,217	6,976,552	–	18,029,769
Sales of smartphone and own brand products	–	–	3,933,589	3,933,589
Sales of warranty packages and professional integrated IT solutions	–	–	110,572	110,572
Provision of IT services	–	–	24,146	24,146
	11,053,217	6,976,552	4,068,307	22,098,076
Timing of revenue recognition				
A point of time	11,053,217	6,976,552	4,044,161	22,073,930
Overtime	–	–	24,146	24,146
	11,053,217	6,976,552	4,068,307	22,098,076

(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). For sales of warranty packages and professional integrated IT solutions, control is transferred when the customers have the right to use or sell these products. 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.

5. REVENUE *(Continued)*

A. For the year ended 31 December 2018 *(Continued)*

(ii) Performance obligations for contracts with customers (Continued)

The IT 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.

B. For the year ended 31 December 2017

The principal activities of the Group are the provision of professional integrated IT solutions and services, and distribution of IT corporate products, digital products, own brand products and related parts and components.

Revenue represents net amount received and receivable for the sale of different types of IT products, self-developed products, provision of professional integrated IT solutions and services net of corresponding sales related taxes and rebate. The amounts of each significant category of revenue recognised in revenue for the year are as follows:

	2017 *HK$'000*
IT Consumer Products	10,809,340
IT Corporate Products	5,560,739
Others	4,654,176
	21,024,255

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

2. IT Corporate Products – distribution of IT 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 mobile location-based service products, sales of warranty packages and professional integrated IT solutions and provision of IT 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) gain, 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.

Segment assets do not include plant and equipment, intangible assets, prepayments, deposits and other receivables, structured bank deposits, pledged bank deposits, bank balances and cash, financial asset at fair value through profit or loss and AFS investment. Segment liabilities do not include other payables, tax payables, amounts due to related companies, government grants and borrowings.

6. SEGMENT INFORMATION *(Continued)*

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 2018

	IT consumer products *HK$'000*	IT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue				
External sales	11,053,217	6,976,552	4,068,307	22,098,076
Segment profit	206,900	304,741	11,998	523,639
Other income				46,266
Research and development expenses				(26,012)
Administrative expenses				(123,485)
Exchange loss, net				(8,246)
Finance costs				(54,011)
Profit before tax				358,151

6. SEGMENT INFORMATION *(Continued)*

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

	IT consumer products *HK$'000*	IT corporate products *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment assets	2,816,950	1,798,028	67,385	4,682,363
Unallocated assets:				
Structured bank deposits				672,221
Pledged bank deposits				179,107
Bank balances and cash				334,240
Prepayments, deposits and other receivables				88,100
Plant and equipment				23,809
Intangible assets				35,903
Financial asset at FVTPL				31,386
Total consolidated assets				6,047,129
Segment liabilities	2,058,837	1,018,224	78,150	3,155,211
Unallocated liabilities:				
Other payables				246,875
Amounts due to related companies				6,698
Government grants				2,577
Tax payables				22,061
Borrowings				880,466
Total consolidated liabilities				4,313,888

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2017

	IT consumer products HK$'000	IT corporate products HK$'000	Others HK$'000	Total HK$'000
Revenue				
External sales	10,809,340	5,560,739	4,654,176	21,024,255
Segment profit	194,403	256,698	13,889	464,990
Other income				27,100
Research and development expenses				(8,842)
Administrative expenses				(116,191)
Exchange gain, net				1,253
Finance costs				(40,224)
Profit before tax				328,086
Segment assets	1,916,869	1,871,580	165,389	3,953,838
Unallocated assets:				
Pledged bank deposits				130,400
Bank balances and cash				467,245
Prepayments, deposits and other receivables				63,006
Plant and equipment				29,255
Intangible assets				34,515
AFS investment				21,384
Total consolidated assets				4,699,643
Segment liabilities	1,097,091	1,098,099	133,477	2,328,667
Unallocated liabilities:				
Other payables				258,734
Amounts due to related companies				6,778
Government grants				3,289
Tax payables				6,109
Borrowings				459,821
Total consolidated liabilities				3,063,398

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2018

	IT consumer products HK$'000	IT corporate products HK$'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	8,557	(6,238)	(571)	–	1,748
(Reversal of allowance) allowance for inventories	(34)	10,401	(3,401)	–	6,966
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Research and development expenses	–	–	–	26,012	26,012
Addition to non-current assets	–	–	–	14,547	14,547
Depreciation	–	–	–	3,825	3,825
Amortisation	–	–	–	2,581	2,581
Gain on disposal of plant and equipment	–	–	–	(44)	(44)
Bank interest income	–	–	–	(6,669)	(6,669)
Finance costs	–	–	–	54,011	54,011
Income tax expenses	–	–	–	88,001	88,001

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2017

	IT consumer products *HK$'000*	IT corporate products *HK$'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	9,498	8,267	600	–	18,365
(Reversal of allowance) allowance for inventories	(296)	(1,933)	5,818	–	3,589
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:					
Research and development expenses	–	–	–	8,842	8,842
Addition to non-current assets	–	–	–	47,163	47,163
Depreciation	–	–	–	5,437	5,437
Amortisation	–	–	–	306	306
Gain on disposal of plant and equipment	–	–	–	(19)	(19)
Bank interest income	–	–	–	(5,310)	(5,310)
Finance costs	–	–	–	40,224	40,224
Income tax expenses	–	–	–	83,560	83,560

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:

	2018	2017
	HK$'000	*HK$'000*
Mainland, China	**21,957,610**	20,961,229
Other regions	**140,466**	63,026
	22,098,076	21,024,255

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

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**1**	5
Mainland, China	**59,711**	63,765
	59,712	63,770

* Non-current assets excluded financial instruments.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

Information about major customers

For the year ended 31 December 2018, revenue from one customer of HK$2,642,745,000 contributes over 10% of the total revenue of the Group. No customers contributed over 10% of the total revenue of the Group for the year ended 31 December 2017.

7. OTHER INCOME

	2018 *HK$'000*	2017 *HK$'000*
Bank interest income	**6,669**	5,310
Government grants (Note 30)	**27,155**	17,597
Waive of customer deposits	**1,028**	2,450
Waive of trade payables	**5,890**	–
Compensation income	**2,873**	–
Investment income	**1,559**	–
Others	**1,092**	1,743
	46,266	27,100

8. FINANCE COSTS

	2018 *HK$'000*	2017 *HK$'000*
Interest on:		
Bank and other borrowings	**28,258**	17,978
Discounted bills with recourse	**19,678**	15,781
Guarantee fee	**6,075**	6,465
	54,011	40,224

9. INCOME TAX EXPENSES

	2018 ***HK$'000***	2017 *HK$'000*
Current tax:		
Hong Kong Profits Tax		
– Provision for the year	**4,118**	–
– Underprovision in prior years	**869**	–
	4,987	–
The PRC Enterprise Income Tax ("EIT")		
– Provision for the year	**85,798**	86,521
– Overprovision in prior years	**(2,784)**	(2,961)
	83,014	83,560
	88,001	83,560

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 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 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, the tax rates of Changhong IT Information Products Co., Ltd. ("CHIT"), Changhong IT Digital Technology Co., Ltd. ("Changhong IT Digital"), Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd are 25% for both years.

9. INCOME TAX EXPENSES *(Continued)*

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 of the PRC 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 2018. The qualification as a High and New Technology Enterprise will be subject to annual review by the relevant tax authorities in the PRC.

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 as follows:

	2018 HK$'000	2017 HK$'000
Profit before tax	**358,151**	328,086
Tax at the domestic income tax rate of 25% (2017: 25%) (Note)	**89,538**	82,022
Tax effect of income not taxable for tax purpose	**(1,602)**	(61)
Tax effect of expenses not deductible for tax purpose	**1,407**	4,560
Effect of tax exemption and tax concessions	**(1,030)**	–
Effect of different tax rate of subsidiaries operating in other jurisdiction	**(2,103)**	–
Tax effect of tax losses not recognised	**3,706**	–
Overprovision in prior years	**(1,915)**	(2,961)
Income tax expenses	**88,001**	83,560

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$2,033,494,000 (2017: approximately HK$1,500,741,000) 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$14,824,000 (2017: Nil) 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$14,824,000 will expire in 2023.

10. PROFIT FOR THE YEAR

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

	2018	2017
	HK$'000	*HK$'000*
Depreciation for plant and equipment	**3,825**	5,437
Amortisation of intangible assets	**2,581**	306
Auditor's remuneration	**2,300**	2,819
Directors' emoluments	**12,975**	12,998
Cost of inventories recognised as an expense	**21,258,367**	20,255,406
Staff costs, (including directors' emoluments)		
– Salaries and related staff costs	**217,738**	185,842
– Retirement benefits scheme contributions	**39,161**	35,910
	256,899	221,752
Allowance for inventories, net (included in cost of sales)	**6,966**	3,589
Impairment loss on trade receivables, net	**1,748**	18,365
Research and development expenses (Note)	**26,012**	8,842
Gain on disposal of plant and equipment	**(44)**	(19)
Written off of software under development	**7,526**	–
Written off of plant and equipment	**1,553**	–
Minimum lease payments in respect of rented premises	**11,587**	12,558

Note: Included in the research and development expenses, approximately HK$14,504,000 (2017: HK$7,549,000) 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 2018

	Fees	Salaries and allowances	Retirement benefits scheme contributions	Performance related incentive payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Ms. Shi Ping (resigned with effect from 31 December 2018)	–	–	–	–	–
Mr. Zhao Yong	–	–	–	–	–
Mr. Zhu Jianqiu	–	1,256	114	10,865	12,235
Mr. Li Jin (resigned with effect from 15 January 2019)	–	–	–	–	–
Mr. Yang Jun	–	–	–	–	–
Sub-total	–	1,256	114	10,865	12,235
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	200	–	–	–	200
Mr. Robert Ip Chun Chung	180	–	–	–	180
Mr. Sun Dongfeng	180	–	–	–	180
Mr. Cheng Yuk Kin	180	–	–	–	180
Sub-total	740	–	–	–	740
Total					12,975

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

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

For the year ended 31 December 2017

	Fees	Salaries and allowances	Retirement benefits scheme contributions	Performance related incentive payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Ms. Shi Ping	–	–	–	–	–
Mr. Zhao Yong	–	–	–	–	–
Mr. Yu Xiao (resigned with effect from 4 May 2017)	–	–	–	–	–
Mr. Wu Xiangtao (resigned with effect from 4 May 2017)	–	–	–	–	–
Mr. Zhu Jianqiu	–	1,177	103	10,978	12,258
Mr. Li Jin (appointed with effect from 4 May 2017)	–	–	–	–	–
Mr. Yang Jun (appointed with effect from 4 May 2017)	–	–	–	–	–
Sub-total	–	1,177	103	10,978	12,258
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	200	–	–	–	200
Mr. Robert Ip Chun Chung	180	–	–	–	180
Mr. Sun Dongfeng	180	–	–	–	180
Mr. Cheng Yuk Kin	180	–	–	–	180
Sub-total	740	–	–	–	740
Total					12,998

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 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.

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

Five highest paid individuals

Of the five individuals with the highest emoluments in this Group, one (2017: one) was a director of the Company whose emoluments are included in the disclosure as above. The emoluments of the remaining four (2017: four) individuals who are neither directors nor chief executive of the Company were as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries and other allowances	**14,570**	12,921
Retirement benefit scheme contributions	**394**	347
	14,964	13,268

Their emoluments fell within the following bands:

	Number of individuals	
	2018	2017
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	2
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	–
HK$5,500,001 to HK$6,000,000	**1**	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 2018 and 2017, three directors, Ms. Shi Ping, Mr. Zhao Yong and Mr. Zhu Jianqiu waived emoluments of HK$60,000 each (2017: HK$60,000 each). Two directors, Mr. Yu Xiao and Mr. Wu Xiantao were resigned on 4 May 2017. They waived emoluments of HK$20,000 for the year ended 31 December 2017. Two directors, Mr. Li Jin and Mr. Yang Jun, were appointed by the Group on 4 May 2017, waived emoluments HK$60,000 (2017: HK$40,000).

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

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2017 Final – HK3 (2017: 2016 Final – HK3) cents per share	**77,116**	77,116

The directors recommend the payment of a final dividend of HK3 cents (2017 Final: HK3 cents) per share in respect of the year ended 31 December 2018 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 the owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company	**270,150**	244,526
Less: Earnings attributable to convertible preference shares	**(117,273)**	(106,149)
Earnings for the purpose of basic earnings per share	**152,877**	138,377
Add: Earnings attributable to convertible preference shares	**117,273**	106,149
Earnings for the purpose of diluted earnings per share	**270,150**	244,526

	2018	2017
	'000	*'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 2017	64,981	11,760	1,940	78,681
Additions	2,376	–	–	2,376
Disposals	(850)	–	–	(850)
Exchange realignment	4,609	816	136	5,561
At 31 December 2017 and 1 January 2018	71,116	12,576	2,076	85,768
Additions	1,006	–	280	1,286
Written off/disposal	(1,400)	(4,886)	(247)	(6,533)
Exchange realignment	(3,233)	(573)	(97)	(3,903)
At 31 December 2018	67,489	7,117	2,012	76,618
DEPRECIATION				
At 31 December 2016 and 1 January 2017	36,614	9,777	1,940	48,331
Charge for the year	5,060	377	–	5,437
Eliminated on disposals	(824)	–	–	(824)
Exchange realignment	2,743	690	136	3,569
At 31 December 2017 and 1 January 2018	43,593	10,844	2,076	56,513
Charge for the year	3,396	406	23	3,825
Written off/eliminated on disposals	(646)	(4,082)	(247)	(4,975)
Exchange realignment	(1,973)	(493)	(88)	(2,554)
At 31 December 2018	44,370	6,675	1,764	52,809
CARRYING VALUES				
At 31 December 2018	23,119	442	248	23,809
At 31 December 2017	27,523	1,732	–	29,255

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	**Software under development**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2017	–	–	–
Additions	636	33,024	33,660
Transfer	6,274	(6,274)	–
Exchange realignment	241	931	1,172
At 31 December 2017 and 1 January 2018	7,151	27,681	34,832
Additions	611	12,650	13,261
Transfer	27,242	(27,242)	–
Written off	–	(7,526)	(7,526)
Exchange realignment	(1,353)	(518)	(1,871)
At 31 December 2018	33,651	5,045	38,696
AMORTISATION			
At 1 January 2017	–	–	–
Charge for year	306	–	306
Exchange realignment	11	–	11
At 31 December 2017 and 1 January 2018	317	–	317
Charge for year	2,581	–	2,581
Exchange realignment	(105)	–	(105)
At 31 December 2018	2,793	–	2,793
CARRYING VALUES			
At 31 December 2018	30,858	5,045	35,903
At 31 December 2017	6,834	27,681	34,515

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 10 years.

During the year, written off of HK$7,526,000 was made on software under development due to the production line was not profitable and thus the development was suspended.

16. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS/AFS INVESTMENT

	2018	2017
	HK$'000	*HK$'000*
Unlisted investment, at fair value	**31,386**	–
Unlisted investment, at cost	**–**	21,384

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 (approximately HK$31,386,000) 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 2018, Changhong IT Digital has paid RMB27,500,000 (approximately HK$31,386,000) (2017: RMB17,875,000 (approximately HK$21,384,000)) to Sichuan Hongyun. The Group had designated the equity investment in Sichuan Hongyun as AFS financial asset on initial recognition.

As at 31 December 2017, the unlisted investment is measured at cost less impairment at the end of the reporting period. Upon adoption of HKFRS 9 as at 1 January 2018, the unlisted investment is measured at FVTPL at the end of the reporting period. The fair values as at 1 January 2018 and 31 December 2018 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.

17. TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**1,460,826**	1,410,879
Less: Allowance for credit loss	**(46,873)**	(80,994)
	1,413,953	1,329,885
Bills receivables	**–**	164,799
Trade and bills receivables	**1,413,953**	1,494,684

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$1,413,953,000 and HK$1,329,885,000 respectively.

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

	2018 HK$'000	2017 HK$'000
Within 30 days	**696,701**	570,609
31 – 60 days	**363,149**	608,065
61 – 90 days	**194,561**	142,067
91 – 180 days	**94,792**	66,621
181– 365 days	**36,714**	56,975
Over 1 year	**28,036**	50,347
	1,413,953	1,494,684

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$299,306,000 which are past due but not impaired as at the reporting date. Out of the past due balances, HK$41,078,000 has been past due 1 year 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.

17. TRADE AND BILLS RECEIVABLES *(Continued)*

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$331,239,000 which were past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances.

The Group allows a credit period ranging from 30 – 180 days to its third party trade customers. As at 31 December 2017, 74% of the trade and bills receivables are neither past due nor impaired.

Aging of trade receivables which are past due but not impaired:

	2017 *HK$'000*
Within 30 days	242,256
31 –60 days	30,110
61 –90 days	7,923
91 – 180 days	18,801
Over 180 days	32,149
	331,239

Movement in the allowance for doubtful debts:

	2017 *HK$'000*
Balance at beginning of the year	60,671
Impairment loss on trade receivables	18,365
Amounts written off as uncollectible	(2,837)
Exchange realignment	4,795
Balance at the end of the year	80,994

At 31 December 2017, included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$80,994,000 which have been in severe financial difficulties.

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in Note 35(b).

18. BILLS RECEIVABLES AT FVTOCI

	As at 31 December 2018 HK$'000
Bills receivables at FVTOCI comprise of:	
Bills receivables aged within 180 days presented based on the issue dates of bills receivables	**273,218**

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$771,006,000 (2017: HK$1,254,716,000) are presented as financing cash inflow during the year, among which HK$602,724,000 (2017: HK$980,336,000) is matured before the year end. Outstanding discounted bills receivables with recourse are set out in Note 31.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 *HK$'000*	2017 *HK$'000*
Prepayments	**255**	1,999
Other tax receivable	**51,382**	25,452
Deposits	**9,439**	10,317
Other receivables	**27,024**	25,238
	88,100	63,006

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

20. INVENTORIES

	2018 *HK$'000*	2017 *HK$'000*
Trading merchandises	**2,337,668**	1,976,801

21. STRUCTURED BANK DEPOSITS

As at 31 December 2018, the structured bank deposits of HK$672,221,000 were placed with the banks in the PRC.

Structured bank deposits represent short term structured product of a reputable commercial banks in PRC at the rates of return by reference to 3 months United States dollar London Interbank Offered Rate. The expected rate ranged from 3% to 4.12% per annum.

The structured bank deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives. The management of the Group considers the fair values of the structured bank deposits, which are based on the estimated return provided by the counterparty banks.

At 31 December 2018, structured bank deposits were pledged to secure the Group's bills financial facilities (2017: Nil).

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances bear interests at floating rates based on bank deposits rates which ranged from 0.3% to 4.86% (2017: 0.35% to 1.75%) per annum.

At 31 December 2018, pledged bank deposits were pledged to secure general banking facilities granted to the Group at floating rates which ranged from 0.3% to 1.6% (2017: 1.1% to 1.75%) 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:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**2,161,954**	1,408,780
31 – 60 days	**452,173**	444,758
61 – 90 days	**69,695**	60,113
91 – 180 days	**59,938**	64,498
181 – 365 days	**25,086**	49,715
Over 1 year	**39,134**	16,109
	2,807,980	2,043,973

The credit period on purchase of goods is ranging from 30 – 120 days (2017: 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

	2018	2017
	HK$'000	*HK$'000*
Accruals	**24,296**	20,999
Provision for social insurance and housing provident fund (Note)	**43,280**	43,410
Other tax payables	**65,733**	102,319
Salaries payables	**69,263**	66,551
Interest payables	**7,761**	8,791
Government grants *(Note 30)*	**609**	1,141
Other payables	**35,933**	15,523
	246,875	258,734

Note: The Group entered into labour service agreements separately with two employment agencies (the "Employment Agencies"), each an 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 2018, the Group has total accumulated unpaid amount of social insurance and housing provident fund of approximately HK$43,280,000 (2017: HK$43,410,000). Provisions for the unpaid amounts had been recognised and included in other payables. As at 31 December 2018, 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 2018 and 2017, no such request was received by the Group.

25. CONTRACT LIABILITIES/CUSTOMER DEPOSITS

	2018	2017
	HK$'000	*HK$'000*
Contract liabilities, current	**347,231**	–
Customer deposits	**–**	284,694

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. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES

	Number of shares		**Share capital**	
	2018	2017	**2018**	2017
	'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

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

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

	Ordinary share			
	Number of shares		Share capital	
	2018	2017	**2018**	2017
	'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	
	2018	2017	**2018**	2017
	'000	*'000*	***HK$'000***	*HK$'000*
At beginning and end of year	**1,115,868**	1,115,868	**27,897**	27,897

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. 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.

27. DEFERRED TAXATION

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

28. BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Loan from a related company, unsecured	**–**	47,853
Bank borrowings, unsecured	**880,466**	411,968
	880,466	459,821
Carrying amount repayable*:		
Within one year	**880,466**	459,821

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The loan from a related company represented the advance from 四川長虹集團財務有限公司("長虹財務") as at 31 December 2017. The balance was unsecured, bearing interest at a fixed rate at 3.9% per annum and repayable within one year.

The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's borrowings for the year ended 31 December 2018 is fixed from 1.48% to 5.44% per annum (2017: 3.9% to 5% per annum).

29. RETIREMENT BENEFIT SCHEME

The Group has joined 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 2018, contributions of the Group under the MPF Scheme amounted to approximately HK$56,000 (2017: HK$74,000).

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 2018, contributions of the Group under the PRC Pension Scheme amounted to approximately HK$39,105,000 (2017: HK$35,836,000).

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately HK$39,161,000 (2017: HK$35,910,000) for the year ended 31 December 2018, represent contributions payable to these schemes by the Group during the year ended 31 December 2018.

30. GOVERNMENT GRANTS

	Government grants related to assets HK$'000	Government grants related to income HK$'000	Total HK$'000
At 1 January 2017	6,284	–	6,284
Receipt of government grant	–	15,380	15,380
Credit to other income	(2,217)	(15,380)	(17,597)
Exchange realignment	363	–	363
At 31 December 2017 and 1 January 2018	4,430	–	4,430
Receipt of government grant	–	26,079	26,079
Credit to other income	(1,076)	(26,079)	(27,155)
Exchange realignment	(168)	–	(168)
At 31 December 2018	3,186	–	3,186

The movement of government grants is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Balance as at 31 December	**3,186**	4,430
Less: Amounts to be recognised as government grants within one year, classified as current liabilities	**609**	1,141
Amounts to be recognised as government grants after one year, classified as non-current liabilities	**2,577**	3,289

30. GOVERNMENT GRANTS *(Continued)*

The Group received government grants and tax refunds of approximately HK$26,079,000 (2017: HK$15,380,000) during the year ended 31 December 2018 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$26,079,000 (2017: HK$15,380,000).

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$1,076,000 (2017: HK$2,217,000).

31. CONTINGENT LIABILITIES

During the years ended 31 December 2018 and 2017, 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:

	2018 ***HK$'000***	2017 *HK$'000*
Settlement of trade and other payables	**181,480**	135,808
Discounted bills for raising of cash	**168,282**	274,380
Outstanding endorsed and discounted bills receivables with recourse	**349,762**	410,188

The outstanding endorsed and discounted bills receivables are aged within 180 days (2017: 180 days) at the end of each reporting period.

32. OPERATING LEASE COMMITMENTS

The Group as lessee

	2018 HK$'000	2017 HK$'000
Minimum lease payments under operating lease during the year	**11,587**	12,558

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**9,653**	12,254
In the second to fifth year, inclusive	**3,649**	15,308
	13,302	27,562

Leases are negotiated and rentals are fixed for terms of 2 to 3 years (2017: 2 to 3 years).

33. CAPITAL COMMITMENT

	2018 HK$'000	2017 HK$'000
Commitment contracted but not provided for in respect of:		
– Capital contribution to Sichuan Hongyun	**–**	11,515

34. 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, 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.

35. FINANCIAL INSTRUMENTS

35a. CATEGORIES OF FINANCIAL INSTRUMENTS

	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Financial asset at FVTPL	**703,607**	–
Bills receivables at FVTOCI	**273,218**	–
Financial assets at amortised cost	**1,961,867**	–
Loans and receivables (including cash and cash equivalents)	**–**	2,124,730
AFS investment	**–**	21,384
	2,938,692	2,146,114
Financial liabilities		
At amortised cost	**3,808,101**	2,601,437

35b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, bill receivables at FVTOCI, amounts due from related companies, other receivables, structured bank deposits, pledged bank deposits, bank balances and cash, financial assets at FVTPL, AFS investment, trade and bills payables, other payables, 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.

35. FINANCIAL INSTRUMENTS *(Continued)*

35b. 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% (2017: 1%) of the Group's sales are denominated in currencies other than the functional currency of the respective group entity making the sales, whilst almost 99% (2017: 99%) of cost are denominated in the group entity's 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	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**–**	483	**–**	–
United States dollars ("USD")	**61,971**	47,163	**339,026**	175,054

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

35. FINANCIAL INSTRUMENTS *(Continued)*

35b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk (Continued)

(i) Currency risk *(Continued)*

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% (2017: 10%) increase and decrease in the functional currency of group entities against the relevant foreign currencies. 10% (2017: 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% (2017: 10%) change in foreign currency rates. A positive number below indicates increase in post-tax profit (2017: an increase in post-tax profit) where functional currency of group entities strengthen 10% (2017: 10%) against the relevant currency. For a 10% (2017: 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.

	USD Impact	
	2018	2017
	HK$'000	*HK$'000*
Profit or loss	**16,463**	11,190

35. FINANCIAL INSTRUMENTS *(Continued)*

35b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest-rate risk in relation to fixed rate loan from a related company and fixed rate borrowings from banks (Note 28). 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 (2017: 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 2018, if interest rates on bank deposits had been 100 basis points (2017: 100 basis points) higher/lower and all other variables were held constant, post-tax profit for the year ended 31 December 2018 would have increased/decreased by HK$342,000 (2017: HK$1,256,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate short-term bank deposits.

(iii) Other price risk

As at 31 December 2018, the Group's investment in an unlisted investment is classified at FVTPL. If the fair value of the respective unlisted investment had been 5% higher/lower, the post-tax profit would increase/decrease by HK$1,177,000.

The price risk on the structured bank deposits and bills receivables at FVTOCI is limited because the maturity period of these deposits and bills receivables are short.

35. FINANCIAL INSTRUMENTS *(Continued)*

35b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group 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 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. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Given the track record of regular repayment of bills receivables and other receivables under the collective assessment and 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.

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 has concentration of credit risk as 15% (2017: 23%) and 30% (2017: 35%) of the total trade receivables were due from the Group's largest customer and the five largest customers, respectively, which are mainly located in the PRC.

35. FINANCIAL INSTRUMENTS *(Continued)*

35b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk and impairment assessment (Continued)

Trade receivables arising from contracts with customers *(Continued)*

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

Internal credit rating	Description	Trade receivables
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired
Doubtful	There has been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit–impaired
Loss	There is evidence indicating the asset is 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

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

2018	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$000	
Financial assets at amortised cost				
Trade receivables-goods and services	(Note)	Lifetime ECL	1,388,930	
	Loss	Credit impaired	71,896	1,460,826

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.

35. FINANCIAL INSTRUMENTS *(Continued)*

35b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk and impairment assessment (Continued)

Provision matrix – aging of trade receivables

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 dates, which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Credit-impaired receivables with gross carrying amounts of HK$71,896,000 as at 31 December 2018 were assessed individually.

Gross carrying amount

	Average loss rate	**Trade receivables** *HK$'000*
Current and within one year	0.2%	1,364,214
Over one year and within two years	15%	11,427
Over two years and within three years	35%	5,440
More than three years	40%	7,849
		1,388,930

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 2018, the Group provided HK$7,723,000 impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of HK$4,326,000 were made on credit-impaired receivables.

35. FINANCIAL INSTRUMENTS *(Continued)*

35b. 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)	Lifetime ECL (credit-impaired)	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 31 December 2017			
Under HKAS 39	11,325	69,669	80,994
Changes due to financial instruments recognised as at 1 January:			
– Transfer to credit-impaired	(176)	176	–
– Impairment losses recognised	1,135	1,432	2,567
– Impairment losses reversed	(8,551)	(1,750)	(10,301)
– Write-offs	(9)	(33,207)	(33,216)
New financial assets originated:			
– impairment losses recognised	6,588	2,894	9,482
Exchange adjustments	(826)	(1,827)	(2,653)
As at 31 December 2018	9,486	37,387	46,873

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 Group currently relies on borrowings as a significant source of liquidity. As at 31 December 2018, the Group has short-term bank loan facilities of HK$2,322,529,000 (as at 31 December 2017: HK$2,343,453,000).

35. FINANCIAL INSTRUMENTS *(Continued)*

35b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk (Continued)

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. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand or less than 1 month	1-3 months	Over 3 months but less than 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2018						
Non-derivative financial liabilities						
Trade and bills payables	–	2,807,980	–	–	2,807,980	2,807,980
Other payables	–	112,957	–	–	112,957	112,957
Amounts due to related companies	–	6,698	–	–	6,698	6,698
Borrowings	4.50	413,354	219,072	256,689	889,115	880,466
		3,340,989	219,072	256,689	3,816,750	3,808,101

	Weighted average effective interest rate	Repayable on demand or less than 1 month	1-3 months	Over 3 months but less than 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017						
Non-derivative financial liabilities						
Trade and bills payables	–	2,043,973	–	–	2,043,973	2,043,973
Other payables	–	90,865	–	–	90,865	90,865
Amounts due to related companies	–	6,778	–	–	6,778	6,778
Borrowings	4.20	77,444	385,431	–	462,875	459,821
		2,219,060	385,431	–	2,604,491	2,601,437

35. FINANCIAL INSTRUMENTS *(Continued)*

35c. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(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
	2018 ***HK$'000***	2017 *HK$'000*				
Financial assets at FVTPL	**31,386**	N/A	Level 2	Direct companion – reference to market evidence of recent transaction prices of the underlying investment.	N/A	N/A
Structured bank deposits	**672,221**	N/A	Level 3	Discounted cash flow – future cash flows are estimated based on estimated return.	Estimated return	The higher the estimated return, the higher the fair value
Bills receivables at FVTOCI	**273,218**	N/A	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

35. FINANCIAL INSTRUMENTS *(Continued)*

35c. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

(ii) Reconciliation of Level 3 fair value measurements

	Structured bank deposits
	HK$'000
At 1 January 2017, 31 December 2017 and 1 January 2018	–
Purchases	849,468
Investment income	1,559
Settlements	(155,149)
Exchange adjustments	(23,657)
At 31 December 2018	672,221

(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 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.

36. 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	**Interest payable**	**Dividend payable**	**Guarantee fee payable to related companies**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 28)				
At 1 January 2018	459,821	8,791	–	–	468,612
Financing cash flows	1,221,971	(28,918)	(77,116)	(6,075)	1,109,862
Non-cash transaction					
Dividend recognised as distribution	–	–	77,116	–	77,116
Finance costs	19,678	28,258	–	6,075	54,011
Discounted bills	(790,683)	–	–	–	(790,683)
Foreign exchange translation	(30,321)	(370)	–	–	(30,691)
At 31 December 2018	880,466	7,761	–	–	888,227
At 1 January 2017	315,073	6,050	–	–	321,123
Financing cash flows	1,377,372	(14,757)	(77,116)	(6,465)	1,279,034
Non-cash transaction					
Dividend recognised as distribution	–	–	77,116	–	77,116
Finance costs	15,781	17,978	–	6,465	40,224
Discounted bills	(1,270,497)	–	–	–	(1,270,497)
Foreign exchange translation	22,092	(480)	–	–	21,612
At 31 December 2017	459,821	8,791	–	–	468,612

37. 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	2018 HK$'000	2017 HK$'000
Immediate and ultimate holding company of the Company				
Sichuan Changhong	(i)	Sales of goods	**15,808**	5,964
		Purchase of goods	**–**	27
		Administrative expenses – rental expenses	**86**	37
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	**6,075**	6,465
		Guarantee to suppliers – Maximum amount granted	**1,310,633**	1,168,786
Fellow subsidiaries of the Group				
四川虹信軟件有限公司	(iii)	Sales of goods	**10,559**	7,543
北京長虹科技有限公司	(iii)	Administrative expenses – rental expenses	**5,678**	5,324
		Sales of goods	**5**	5
北京美菱電器營銷有限公司	(iii)	Sales of goods	**22**	22
四川長虹電子系統有限公司	(iii)	Sales of goods	**3,727**	3,523
四川虹微技術有限公司	(iii)	Sales of goods	**482**	638
		Purchase of goods	**–**	305

37. RELATED PARTY DISCLOSURES *(Continued)*

(a) Related parties transactions *(Continued)*

Name of company	Notes	Nature of transaction	2018 HK$'000	2017 HK$'000
Fellow subsidiaries of the Group *(Continued)*				
四川長虹空調有限公司	(iii)	Sales of goods	**7**	7
廣元長虹電子科技有限公司	(iii)	Sales of goods	**–**	98
四川長虹國際酒店有限責任公司	(iii)	Administrative expense – Rental expense	**5**	9
Sichuan Changhong Network Technologies Co., Ltd.	(iii)	Sales of goods	**4**	9
四川快益點電器服務連鎖有限公司	(iii)	Sales of goods	**45**	353
成都長虹電子科技有限責任公司	(iii)	Administrative expenses – rental expenses	**1,028**	1,512
四川長虹物業服務有限公司	(iii)	Administrative expense – rental expenses	**281**	353
四川長虹通信科技有限公司	(iii)	Administrative expense – transportation	**7**	7
四川長虹民生物流有限責任公司	(iii)	Administrative expense – agency fee	**153**	322
		Sales of goods	**24**	–
四川愛創科技有限公司	(iii)	Purchase of goods	**3,245**	–
四川愛聯科技有限公司	(iii)	Purchase of goods	**53**	–
四川長虹民生物流股份有限公司	(iii)	Sales of goods	**24**	–
Related company of the Group				
長虹財務	(iv)	Administrative expense – settlement service fee	**–**	29
		Sales of goods	**1,531**	367

37. RELATED PARTY DISCLOSURES *(Continued)*

(b) Related parties balances

The Group allows a credit period of 55 days for sales to its related parties. As at 31 December 2018, the Group had the following balances with related parties and the respective aging analysis:

Name of company	Notes	Nature of transaction	2018 *HK$'000*	2017 *HK$'000*
Immediate and ultimate holding company of the Company				
Sichuan Changhong	(i)	Trade and bills receivables		
		31 – 60 days	**58**	134
		Over 60 days	**1,221**	–
			1,279	134
Fellow subsidiaries of the Group				
四川虹信軟件有限公司	(iii)	Trade and bills receivables		
		Within 30 days	**–**	1,403
		31 – 60 days	**–**	4,689
		Over 60 days	**3,359**	–
			3,359	6,092
四川長虹電子系統有限公司	(iii)	Trade and bills receivables		
		Over 60 days	**2,283**	–
成都長虹電子科技有限責任公司	(iii)	Trade and bills receivables		
		61 – 90 days	**9**	10
四川虹微技術有限公司	(iii)	Trade and bill receivables		
		Within 30 days	**152**	–

37. RELATED PARTY DISCLOSURES *(Continued)*

(b) Related parties balances *(Continued)*

Name of company	Notes	Nature of transaction	2018 HK$'000	2017 HK$'000
Related company of the Group				
長虹財務	(iii)	Trade and bills receivables Within 30 days	–	444
Total amounts due from related companies – trade and bills receivables			**7,543**	7,163
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	**5,868**	6,690
Fellow subsidiary of the Group				
四川愛聯科技有限公司	(iii) (v)	Other payables	**830**	–
四川民生物流有限責任公司	(iii) (v)	Other payables	–	88
Total amounts due to related companies – other payables			**6,698**	6,778

37. 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:

	2018	2017
	HK$'000	*HK$'000*
Short-term benefits	**19,236**	19,895
Post-employment benefits	**331**	404
	19,567	20,299

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

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

General information of subsidiaries

Details of the Group's 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 — Directly 2018 %	Directly 2017 %	Indirectly 2018 %	Indirectly 2017 %	Proportion of voting power held by the Company — Directly 2018 %	Directly 2017 %	Indirectly 2018 %	Indirectly 2017 %	Principal activities
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 (Note)	–	–	**100**	100	**–**	–	**100**	100	Provision of professional integrated IT solutions and services and distribution of consumer digital products and others

Note: The subsidiary was established in 2017 with registered capital of RMB100,000,000 and paid up capital of RMB100,000,000 (2017: Nil).

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

General information of subsidiaries *(Continued)*

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 other 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	
		2018	2017
Investment holding	British Virgin Island	**2**	2

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Property and equipment	**47**	48
Investments in subsidiaries (Note a)	**1,241,751**	1,241,751
	1,241,798	1,241,799
Current assets		
Prepayments, deposits and other receivables	**486**	809
Amounts due from subsidiaries (Note b)	**13,251**	2
Bank balances and cash	**294**	67
	14,031	878
Current liabilities		
Other payables	**2,356**	2,978
Tax payable	**35**	–
Amounts due to subsidiaries (Note b)	**308,612**	218,148
	311,003	221,126
Net current liabilities	**(296,972)**	(220,248)
	944,826	1,021,551
Capital and reserves		
Share capital	**36,366**	36,366
Convertible preference shares	**27,897**	27,897
Reserves (Note c)	**880,563**	957,288
	944,826	1,021,551

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

Notes:

(a) As at 31 December 2018, investments in subsidiaries are carried at cost of HK$1,241,751,000 (2017: 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	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2016 and 1 January 2017	1,992,231	(957,677)	1,034,554
Loss and total comprehensive expense for the year	–	(150)	(150)
Dividends recognised as distribution (Note 12)	(77,116)	–	(77,116)
At 31 December 2017	1,915,115	(957,827)	957,288
Profit and total comprehensive income for the year	–	391	391
Dividends recognised as distribution (Note 12)	(77,116)	–	(77,116)
At 31 December 2018	1,837,999	(957,436)	880,563