Changhong Jiahua Holdings Limited
長虹佳華控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code on GEM: 8016)
(Stock Code on Main Board: 3991)

TRANSFER OF LISTING FROM GEM TO THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Sole Sponsor

Reference is made to the announcement of the Company dated 27 September 2019 in relation to the formal application submitted to the Stock Exchange for the Transfer of Listing pursuant to Chapter 9A of the Main Board Listing Rules.

The Company has applied for the listing of, and permission to deal in, (i) 1,454,652,000 Shares in issue, and (ii) 1,115,868,000 Shares which may fall to be issued upon exercise in full of conversion rights attached to the Convertible Preference Shares, by way of transfer of listing from GEM to the Main Board.

The Board is pleased to announce that the approval-in-principle for the Transfer of Listing has been granted by the Stock Exchange on 9 March 2020.

The last day of dealings in the Shares on GEM will be 17 March 2020. Dealings in the Shares on the Main Board will commence at 9:00 a.m. on 18 March 2020. The Shares will be traded on the Main Board under the new stock code "3991".

All pre-conditions for the Transfer of Listing as set out in Rule 9A.02 of the Main Board Listing Rules have, insofar as applicable, been fulfilled in relation to the Company and its Shares as at the date of this announcement.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares, which will continue to be good evidence of legal title and be valid for delivery, trading, settlement and registration purposes, and will not involve any transfer or exchange of the existing share certificates. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the share registrars and transfer offices of the Company following the Transfer of Listing.

The price of the Shares has been volatile since the Listing Date and up to the Latest Practicable Date. The Board confirmed that it was not aware of any reasons for the price or trading volume movements or of any information which must be announced to avoid a false market in the Company's securities or of any inside information that had to be disclosed under Part XIVA of the SFO. The price of the Shares has been volatile and may continue to be volatile upon the Transfer of Listing.

TRANSFER OF LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD

Reference is made to the announcement of the Company dated 27 September 2019 in relation to the formal application submitted to the Stock Exchange for the Transfer of Listing pursuant to Chapter 9A of the Main Board Listing Rules.

On 27 September 2019, a formal application was made by the Company to the Stock Exchange for the Transfer of Listing. The Company has applied for the listing of, and permission to deal in, (i) 1,454,652,000 Shares in issue, and (ii) 1,115,868,000 Shares which may fall to be issued upon exercise in full of conversion rights attached to the Convertible Preference Shares, by way of transfer of listing from GEM to the Main Board.

The Board is pleased to announce that the Stock Exchange has granted its approval in-principle on 9 March 2020 for the Shares to be listed on the Main Board and delisted from GEM according to Appendix 28 paragraph 10(7) of the Main Board Listing Rules.

The Board confirms that all pre-conditions for the Transfer of Listing as set out in Rule 9A.02 of the Main Board Listing Rules have, insofar as applicable, been fulfilled in relation to the Company and its Shares as at the date of this announcement.

REASONS FOR THE TRANSFER OF LISTING

The Company has been listed on GEM since the Listing Date. The Group is principally engaged in the distribution and sales of (i) IT consumer products including personal computers and digital products and IT accessories, (ii) IT corporate products including storage products, network products, PC servers, IBMS products and UC&CC products, and (iii) others including smartphones, self-developed and customised products as well as the provision of IT services.

GEM has been positioned and perceived as a market designed to accommodate companies to which higher investment risk and higher market volatility may be attached compared to companies listed on the Main Board. Given the listing requirements for the Main Board are generally higher than that for GEM, the Directors consider that a listing status of the Company on the Main Board is generally perceived to enjoy a premier status amongst investors, which will help strengthen the recognition of the Group among both the existing Shareholders as well as the potential investors, resulting in a broader investor base and higher trading liquidity of the Shares. Further, facilitated by the enhanced status of the Group, the Directors believe that the Transfer of Listing will help reinforce the confidence of the Group's customers, suppliers and other stakeholders in the Company's financial strength, governance and credibility and will hence further promote the Company's corporate profile and recognition among public investors and the public in general. This will in turn further strengthen the Group's position in the industry and improve the Group's competitiveness in retaining its current employees, recruiting more talents and attracting new customers and suppliers which may ultimately help foster the business development of the Group and enhance return to the Shareholders in the long run.

In light of the above, the Directors are of the view that the Transfer of Listing is in the interests of the Company and the Shareholders as a whole.

As at the date of this announcement, the Board has no immediate plans to change the nature of the business of the Group following the Transfer of Listing. The Transfer of Listing will not involve any issue of new Shares by the Company.

DEALINGS IN THE SHARES ON THE MAIN BOARD

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 24 January 2000, the date on which the Shares were first listed on GEM. Subject to the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence, and that all activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The last day of dealings in the Shares on GEM (stock code: 8016) will be 17 March 2020. Dealings in the Shares on the Main Board will commence at 9:00 a.m. on 18 March 2020. The Shares will be traded on the Main Board under the new stock code "3991" following the Transfer of Listing.

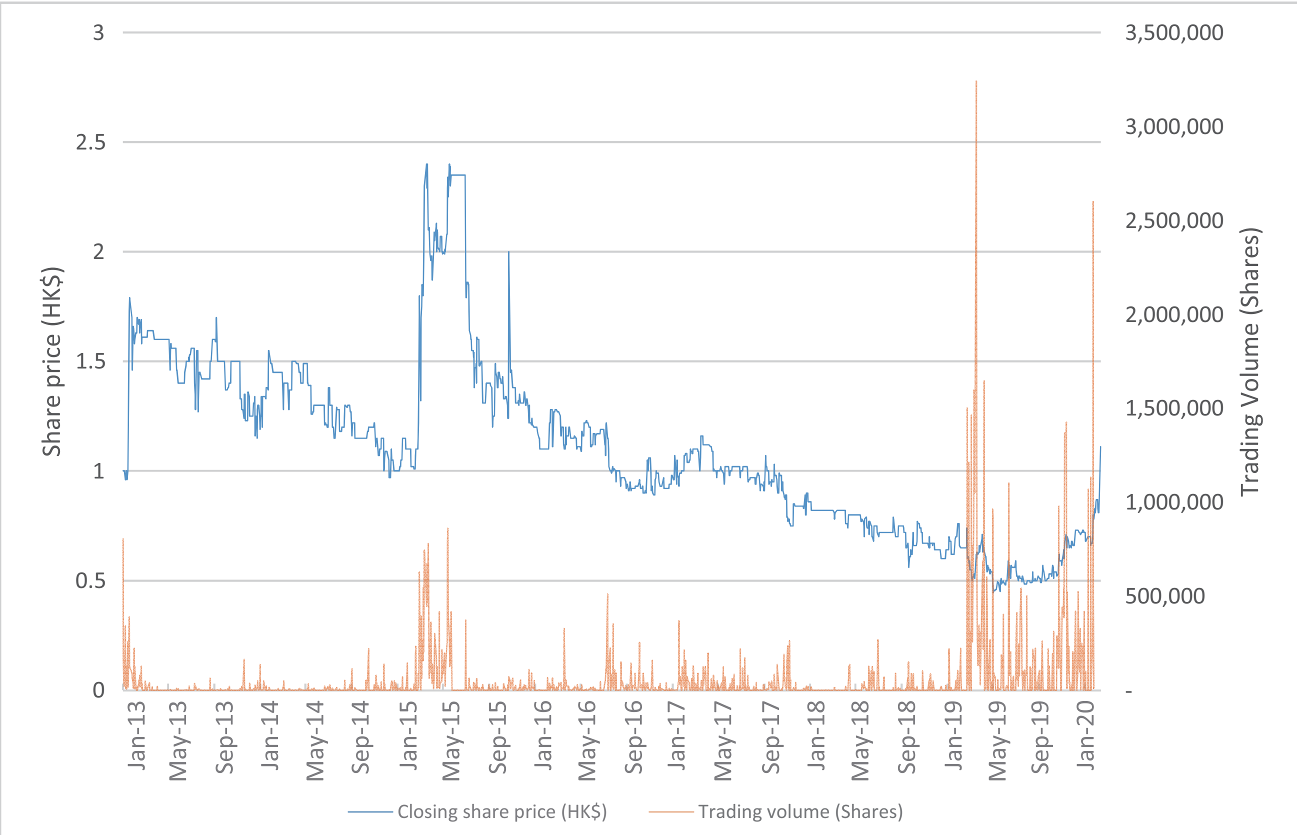
The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for delivery, trading, settlement and registration purposes, and will not involve any transfer or exchange of the existing share certificates. Currently, the Shares are traded in a board lot of 2,000 Shares each and are traded in Hong Kong dollars. The principal share registrar and transfer office of the Company is Codan Services Limited and the Hong Kong branch share registrar and transfer office of the Company is Hong Kong Registrar

Limited. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the abovementioned share registrars and transfer offices of the Company following the Transfer of Listing.

SHARE PRICE VOLATILITY

The price of the Shares has been volatile since the Listing Date and up to the Latest Practicable Date, which the highest and lowest price were HK$2.4 and HK$0.445, respectively. During the aforesaid period, the closing price of the Shares had risen by a maximum of 140.0% and fallen by a maximum of approximately 55.5%, by comparing with the closing price on the Listing Date of HK$1.0. Having made such enquiries with respect to the Company as were reasonable in the circumstances, the Board confirmed that it was not aware of any reasons for the price or trading volume movements or of any information which must be announced to avoid a false market in the Company's securities or of any inside information that had to be disclosed under Part XIVA of the SFO. The price of the Shares has been volatile and may continue to be volatile upon listing on the Main Board.

The following chart sets forth the volatility of the closing price and trading volume of the Shares since the Listing Date up to the Latest Practicable Date:



CONVERTIBLE PREFERENCE SHARES

As at the date of this announcement, the Company has 1,115,868,000 fully-paid Convertible Preference Shares in issue. Based on the initial conversion price of HK$1.00 per Convertible Preference Share (subject to adjustment), a maximum of 1,115,868,000 Shares will be allotted and issued upon the exercise in full of the conversion rights attached to the Convertible Preference Shares. The listing of the Shares to be issued upon the exercise of the conversion rights attached to the Convertible Preference Shares will also be transferred to the Main Board. The Convertible Preference Shares are non-voting and irredeemable. The conversion rights relating to any of the Convertible Preference Shares shall only be exercised to the extent that immediately following the conversion of the Convertible Preference Shares, the Company is able to meet the public float requirement of the Stock Exchange.

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Pursuant to Rule 9A.12 of the Main Board Listing Rules, the general mandates granted by the Shareholders at the annual general meeting of the Company held on 17 May 2019 to allot new Shares and repurchase Shares will continue to be valid and remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws, the Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; and

(c) the date on which the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors.

SHAREHOLDING DISTRIBUTION

The Company has made an enquiry into its shareholding. Based on the responses received up to the date of this announcement and to the best information and knowledge of the Directors upon due inquiry, as at 20 February 2020 (being the latest practicable date in ascertaining the Company's shareholding for publication of this announcement), (i) the Controlling Shareholders held a total of 948,368,000 Shares (representing 65.20% of the issued Shares), (ii) Typical Faith held a total of 82,415,762 shares[*(Note)*] (representing 5.66% of the issued Shares), which is wholly owned by Mr. Zhu Jianqiu, the executive Director, (iii) the public Shareholders held an aggregate of 423,868,238 Shares[*(Note)*] (representing approximately 29.14% of the issued Shares), and (iv) there were not less than 300 Shareholders. As at 20 February 2020, (i) the top three identifiable Shareholders held in aggregate 1,113,793,102 Shares, representing approximately 76.57% of the Shares; (ii) the top 20 identifiable Shareholders held in aggregate 1,284,813,208 Shares, representing approximately 88.32% of the Shares; and (iii) the top 25 identifiable Shareholders held in aggregate 1,295,115,724 Shares, representing approximately 89.03% of the Shares.

Note: being or including the Shares held through HKSCC Nominees Limited as nominee.

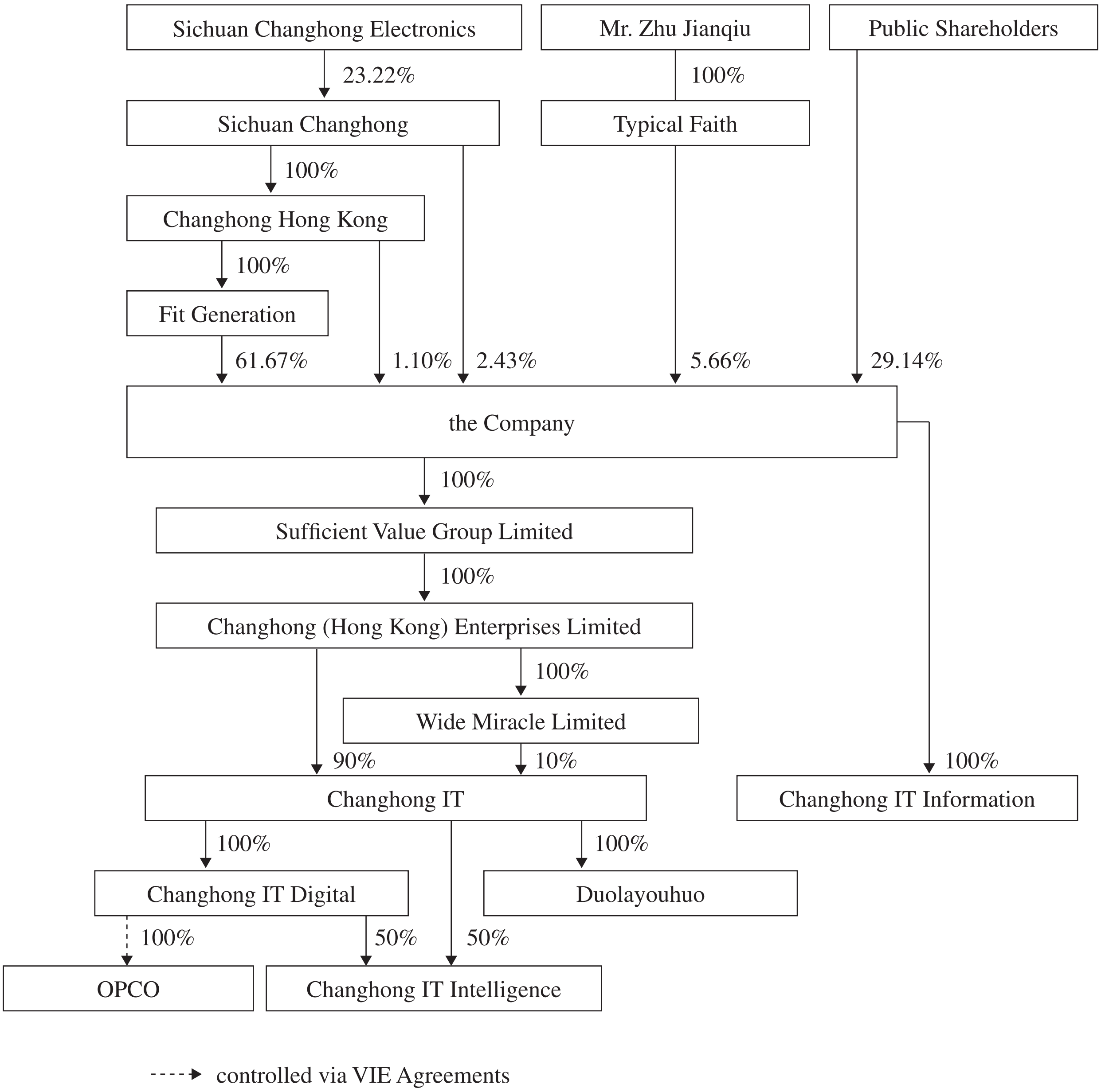
The below table sets out the spread of the Shares held by the identifiable public Shareholders, representing 28.84% of the issued Shares as at 20 February 2020 *(Note)*:

	Aggregate number of Shares held by the Shareholder(s)	**Approximate percentage of shareholding to the issued share capital of the Company**
Top identifiable public Shareholder	83,009,340	5.71%
Top three identifiable public Shareholders	124,608,612	8.57%
Top 10 identifiable public Shareholders	214,637,890	14.76%
Top 20 identifiable public Shareholders	258,660,662	17.78%
Top 25 identifiable public Shareholders	268,013,532	18.42%

As at the date of this announcement, the Controlling Shareholders held in aggregate 948,368,000 Shares, representing 65.20% of the entire issued share capital of the Company.

Note: The unidentifiable Shareholders held an aggregate of 4,401,510 Shares, representing approximately 0.30% of the entire issued share capital of the Company as at 20 February 2020.

The following chart sets forth the shareholding structure of the Group as at the Latest Practicable Date:



PUBLIC FLOAT

As disclosed in the announcement of the Company dated 12 November 2019, the number of Shares held by the public dropped below the minimum public float requirement of 25% as set out under Rule 11.23(7) of the GEM Listing Rules to approximately 24.96% during the period of 17 May 2019 to 3 June 2019 and approximately 23.53% during the period of 3 June 2019 to 11 November 2019 as three Shareholders were directors of OPCO at the relevant time. Due to the Company's misunderstanding of the relevant GEM Listing Rules, the Company did not recognise that OPCO is considered as a subsidiary of the Company and therefore its directors are core connected persons of the Company. As soon as the Company becoming aware that the public float of the Company had fallen below the the minimum percentage of 25% prescribed by Rule 11.23(7) of the GEM Listing Rules, it has taken appropriate steps to restore at least 25% of the Shares to be held by the public on 11 November 2019 and publish the relevant announcement as soon as reasonably practicable in accordance with the GEM Listing Rules. The three Shareholders are not considered as core connected persons of the Company following their resignations as directors of OPCO. Subsequently, as disclosed in the announcement of the Company dated 14 January 2020, Sichuan Changhong entered into sale and purchase agreements respectively with, and completed the disposal of 60,000,000 Shares, representing approximately 4.12% of the entire issued share capital of the Company, to no less than 100 Independent Third Parties. Immediately following the completion of such disposal, the percentage of public float of the Company was increased to approximately 29.14%.

The Directors confirm that not less than 25% of the total issued share capital of the Company is held by the public (as defined in the Main Board Listing Rules) as at the date of this announcement. Accordingly, the minimum 25% public float requirement has been maintained in compliance with Rule 8.08 of the Main Board Listing Rules. The Transfer of Listing will not constitute shares or securities offerings. The Directors are of the view that the Company will continue to maintain the public float requirement in compliance with Rule 8.08 of the Main Board Listing Rules.

PUBLICATION OF RESULTS

Upon the Transfer of Listing, the Company will cease the practice of quarterly reporting of financial results and will follow the relevant requirements of the Main Board Listing Rules which include publishing interim results and annual results within two months and three months from the end of the relevant six-month period or financial year end, respectively. The Board is of the view that the investors and Shareholders will continue to have access to relevant information on the Company following the reporting requirements under the Main Board Listing Rules.

SUMMARY OF THE GROUP'S BUSINESS

The Group is principally engaged in the distribution and sales of (i) IT consumer products including personal computers and digital products and IT accessories, (ii) IT corporate products including storage products, network products, PC servers, IBMS products and UC&CC products, and (iii) others including smartphones, self-developed and customised products as well as the provision of IT services. The Group has not changed its principal business since the Listing Date.

During the Track Record Period, the Group had sold IT products under a total of 29, 35, 47 and 62 brands, respectively, most of whom are well-known international brands and PRC brands.

The following table sets forth the revenue by products for the years/periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	HK$'000	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000* (Unaudited)	*% to total*	*HK$'000* (Unaudited)	*% to total*
IT Consumer Products										
Personal computers	9,190,379	48.2%	10,027,881	47.7%	10,039,406	45.4%	7,693,669	48.1%	7,467,451	37.9%
Digital products and IT accessories	612,965	3.2%	781,459	3.7%	1,013,811	4.6%	688,351	4.3%	1,450,646	7.4%
Sub-total	**9,803,344**	**51.4%**	**10,809,340**	**51.4%**	**11,053,217**	**50.0%**	**8,382,021**	**52.4%**	**8,918,097**	**45.3%**
IT Corporate Products										
Storage products	1,818,499	9.5%	2,129,256	10.1%	2,829,900	12.8%	2,028,206	12.7%	2,462,997	12.5%
Network products	1,501,740	7.9%	1,588,592	7.6%	1,914,890	8.7%	1,361,652	8.5%	1,566,045	8.0%
PC servers	787,932	4.1%	961,497	4.6%	1,078,354	4.9%	814,379	5.1%	961,929	4.9%
IBMS products	636,737	3.3%	682,161	3.2%	862,262	3.9%	630,486	4.0%	572,742	2.9%
UC&CC products	227,105	1.2%	199,233	1.0%	291,145	1.3%	197,188	1.2%	233,286	1.2%
Sub-total	**4,972,014**	**26.1%**	**5,560,739**	**26.5%**	**6,976,552**	**31.6%**	**5,031,910**	**31.5%**	**5,797,000**	**29.5%**
Others										
Smartphones	3,980,477	20.9%	4,424,001	21.0%	3,850,313	17.4%	2,420,511	15.1%	4,809,320	24.4%
Self-developed and customised products	214,874	1.1%	52,575	0.3%	83,276	0.1%	16,735	0.1%	18,232	0.1%
IT services	92,539	0.5%	177,600	0.8%	134,718	0.9%	143,630	0.9%	135,506	0.7%
Sub-total	**4,287,890**	**22.5%**	**4,654,176**	**22.1%**	**4,068,307**	**18.4%**	**2,580,876**	**16.1%**	**4,963,058**	**25.2%**
Total	**19,063,248**	**100%**	**21,024,255**	**100%**	**22,098,076**	**100%**	**15,994,807**	**100%**	**19,678,155**	**100%**

Note: Figures are subject to rounding adjustments.

The following table sets forth the revenue breakdown by the top five brands by revenue for the years/periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	HK$'000	*Contribution to the total revenue of the Group*	*HK$'000*	*Contribution to the total revenue of the Group*	*HK$'000*	*Contribution to the total revenue of the Group*	*HK$'000*	*Contribution to the total revenue of the Group*	*HK$'000*	*Contribution to the total revenue of the Group*
Brand A	5,240,051	27.5%	5,999,866	28.6%	5,562,202	25.2%	4,363,394	27.3%	4,132,968	21.0%
Brand B	4,632,583	24.3%	5,300,873	25.2%	4,640,937	21.0%	3,025,315	18.9%	5,242,004	26.7%
Brand C	3,493,071	18.3%	3,668,645	17.4%	3,706,446	16.8%	2,835,532	17.7%	2,632,605	13.4%
Brand D	951,069	5.0%	859,603	4.1%	930,462	4.2%	648,768	4.1%	829,935	4.2%
Brand E	838,045	4.4%	779,846	3.7%	N/A	N/A	N/A	N/A	N/A	N/A
Brand F	N/A	N/A	N/A	N/A	872,259	3.9%	652,364	4.1%	752,974	3.8%
Total	15,154,819	79.5%	16,608,833	79.0%	15,712,306	71.1%	11,525,373	72.1%	13,590,486	69.1%

Notes:

1. Brand A is an international brand owned by the parent company of Supplier Group A, a PRC-based multinational technology company which is listed on the Main Board of the Stock Exchange in 1994. The key products that the Group purchased under Brand A are personal computers and IT accessories.

2. Brand B is an international brand owned by the parent company of Supplier D, an US-based multinational technology company which is listed on NASDAQ in 1980. The key products that the Group purchased under Brand B are smartphones, personal computers and IT accessories.

3. Brand C is one of international brands owned by the parent company of Supplier Group B, an US-based multinational technology company which is listed on the New York Stock Exchange in 2018. The key products that the Group purchased under Brand C are personal computers and IT accessories.

4. Brand D is one of international brands owned by the parent company of Supplier Group B, an US-based multinational technology company which is listed on the New York Stock Exchange in 2018. The key products that the Group purchased under Brand D are storage products.

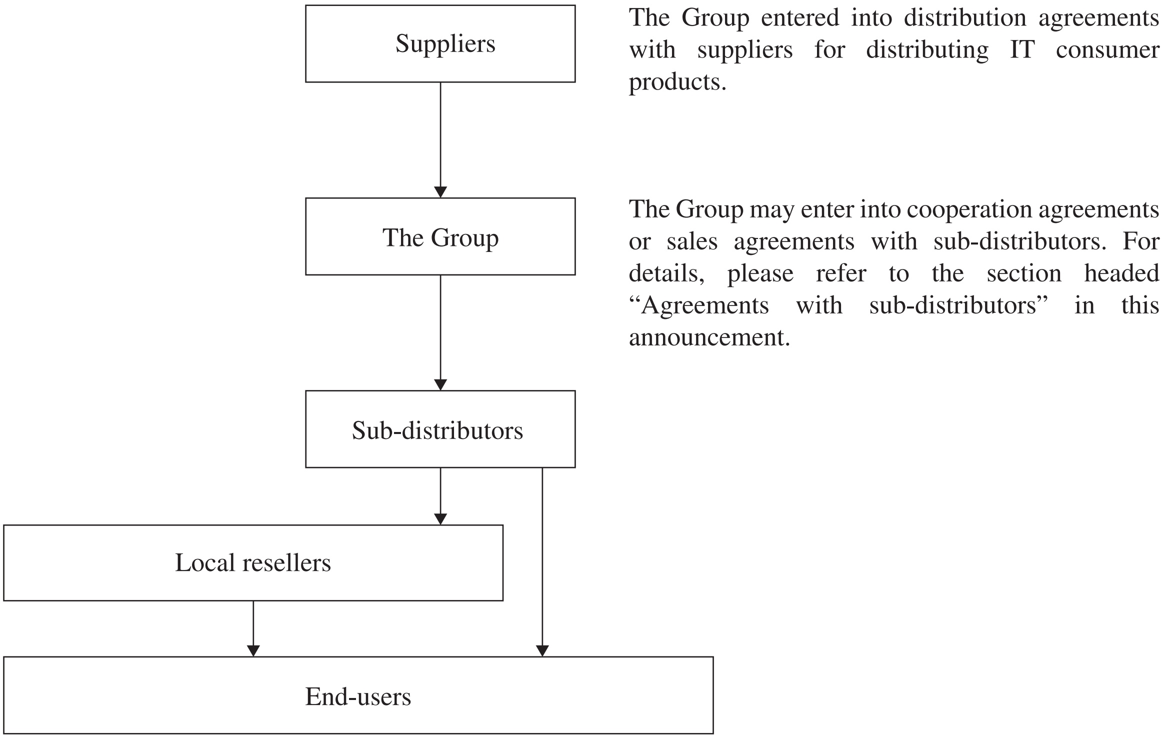
5. Brand E is an international brand owned by a PRC-based multinational telecommunication and information technology company which is listed on the Shenzhen Stock Exchange in 1997 and the Main Board of the Stock Exchange in 2004. The key products that the Group purchased under Brand E are personal computers and IT accessories.

6. Brand F is an international brand owned by the parent company of Supplier Group G, an US-based multinational technology company which is listed on the New York Stock Exchange in 1957. The key products that the Group purchased under Brand F are personal computers and IT accessories.

Business Model

(i) IT customer products

IT consumer products include personal computers such as laptops and desktops, and digital products and IT accessories such as e-readers, tablets, cameras, keyboards, mice, audio devices and etc. The supply chain and distribution channels of the Group for IT consumer products are principally illustrated in the following chart:



(ii) IT corporate products

IT corporate products include storage products such as server switches, tape cartridges, storage servers, storage software, host bus adapters and data backup software; network products such as routers, hubs, network switches, cables and security products such as firewalls, PC servers, IBMS products such as public security and security alarm systems, video surveillance systems, IT system infrastructures and other intelligent building management systems, and UC&CC products such as internet phones and video conferencing systems, and solutions supporting an unified communication system and contact centre. In general, the supply chain and distribution channels of the Group for certain IT corporate products are similar to those of IT consumer products as illustrated above. From time to time, the Group orders certain IT corporate products at the request of its customer.

(iii) Others

Others include smartphones, self-developed and customised products, as well as the provision of IT services. The supply chain and distribution channels of the Group for smartphones are similar to those of IT consumer products as illustrated above. The Group's self-developed and customised products are tailor-made LBS products and intelligent terminals for its customers' exclusive needs and use. The Group's IT services include the IT installation and implementation and/or after-sales IT technical support that the Group provides on behalf of certain suppliers, and after-sales IT technical support that the Group provides to certain customers pursuant to maintenance service agreements with such customers.

According to CIC, distributors in IT product distribution industry are required to do more than merely distributing products. Brand owners often require their distribution partners to have strong financial capability, distribution management expertise and capability to provide value-added services, which will lead to higher entry barriers and challenges to succeed in this dynamic market place. In the supply chain, distributors also serve as a buffer for brand owners, which requires excellent inventory management and logistics expertise. Distributors are subject to uncertainties in demands, thus the key to success is to regularly monitor the market conditions and respond quickly to the change of market dynamics. To achieve this, an efficient management platform support will be a necessity for distributors. It will help track the orders placed by customers in a timely manner, monitor product shipments, inventory as well as logistics arrangements, and then report relevant statistics and information to the brand owners. The capability of value-added services is gaining importance as an asset for distributors to build its partnerships with others, including brand owners and channel partners.

The Directors confirm that, based on their industry experience and understanding of the IT product distribution market in the PRC, the suppliers usually enter into distribution agreements with the Group instead of transact directly with sub-distributors due to the competitive edges of the Group as set out below:

(i) Channel distribution advantages

The Group owns a wide spread distribution channel that covers various cities and regions in China. By effective expansion of distribution channel and stimulating sub-distributors' reliance to the Group, the Group continuously fuels the increase in sales and marketing of IT products.

(ii) Sales and marketing abilities

The Group, benefitting from its tracked history of industry experience, has an in-depth understanding of the market of IT products. With such understanding, the Group offers highly effective, efficient and professional distribution solutions to the suppliers to speed up the penetrations of IT products to the market. The Group also assists the suppliers to conduct marketing and promotions of their IT products.

(iii) Capital abilities

The Group provides capital support to the suppliers as suppliers will collect the sales proceeds directly from the distributors who usually have stronger financial capability after selling the IT products to distributors, while distributors will collect the sales proceeds from various sub-distributors separately after selling the IT products to such sub-distributors.

(iv) Operation and management capabilities

The Group has a complete and efficient business operation and management platform that is supported by an advanced online distribution platform, reliable credit system, efficient logistics operation and all round after-sales services system. The outstanding operation and management capabilities guarantee the high quality services provided by the Group.

(v) Technologies services support

The Group continuously provides comprehensive and high quality value-added services to the sub-distributors, including but not limited to, training and consultation, technology support, repair and maintenance, IT troubleshooting solutions, etc.

(vi) Brand reputation

The Group is one of the leading players in the IT product distribution industry. With its deep-rooted industry experience and extensive capital, technology and sales capabilities, the Group retains excellent reputation among the industry and demonstrates visible influences.

(vii) Professional team

The Group's management team consists of professional management executives, technological experts and talented young leaders who have through understanding towards the IT product distribution market.

MAJOR CUSTOMERS AND SUPPLIERS

Customers

The Group's customers are primarily sub-distributors of IT products in the PRC. The Group also sells IT products to end-users such as enterprises, government authorities, financial institutions, health authorities, education institutions, railway companies and electricity companies in the PRC. During the Track Record Period, the revenue derived from sales to sub-distributors amounted to HK$18,563.1 million, HK$20,390.2 million, HK$21,442.0 million and HK$18,853.2 million, respectively, representing approximately 97.4%, 97.0%, 97.0% and 95.8% of the total revenue of the Group and the revenue derived from sales to end-users amounted to HK$500.2 million, HK$634.0 million, HK$656.1 million and HK$825.0 million, respectively, representing approximately 2.6%, 3.0%, 3.0% and 4.2% of the total revenue of the Group.

Sub-distributors purchase IT products from the Group and sell the IT products to end-users or to local resellers, such as outlets and retailers, for further sales to end-users. As at 30 September 2019, the Group had maintained business relationship with 9,400 sub-distributors. For details, please refer to the section headed "Sub-distributors" in this announcement.

Set out below are the details of the five largest customers of the Group and their background information for the years/periods indicated.

For the year ended 31 December 2016

Customers	**Principal place of business**	**Principal business activities**	**Year in which business relationship with the Group commenced**	**Key products purchased**	**Credit term**	**Revenue contribution to the Group** *(HK$'000)*	**Contribution to the total revenue of the Group** *(approximate %)*
Customer Group A *(Note 1)*	PRC	Distribution of consumer products.	2008	Personal computers and digital products.	30 or 50 days	1,400,283	7.3
Customer B *(Note 2)*	PRC	Imports, exports and trading of products.	2016	Smartphones.	Payment in advance	294,149	1.5
Customer C *(Note 3)*	PRC	Imports, exports and wholesale of various products (including but not limited to electrical appliances and metal materials).	2015	Smartphones.	Payment in advance	268,690	1.4
Customer D *(Note 4)*	PRC	Trading and distribution of products.	2016	Smartphones.	Payment in advance	226,896	1.2
Customer E *(Note 5)*	PRC	Imports, exports and retail of various products (including but not limited to computer software and hardware).	2015	Smartphones.	Payment in advance	224,587	1.2
Total						**2,414,605**	**12.6**

For the year ended 31 December 2017

Customers	Principal place of business	Principal business activities	Year in which business relationship with the Group commenced	Key products purchased	Credit term	Revenue contribution to the Group *(HK$'000)*	Contribution to the total revenue of the Group *(approximate %)*
Customer Group A *(Note 1)*	PRC	Distribution of consumer products.	2008	Personal computers and digital products.	30 to 50 days	1,950,600	9.3
Customer C *(Note 3)*	PRC	Imports, exports and wholesale of various products (including but not limited to electrical appliances and metal materials).	2015	Smartphones.	Payment in advance	503,054	2.4
Customer D *(Note 4)*	PRC	Trading and distribution of products.	2016	Smartphones.	Payment in advance	341,601	1.6
Customer B *(Note 2)*	PRC	Imports, exports and trading of products.	2016	Smartphones.	Payment in advance	215,579	1.0
Customer F *(Note 6)*	PRC	Distribution of communication devices and electrical appliances, and provision of communication and electrical engineering.	2011	Network products and IBMS products.	Payment in advance	173,370	0.8
Total						**3,184,204**	**15.1**

For the year ended 31 December 2018

Customers	Principal place of business	Principal business activities	Year in which business relationship with the Group commenced	Key products purchased	Credit term	Revenue contribution to the Group *(HK$'000)*	Contribution to the total revenue of the Group *(approximate %)*
Customer Group A *(Note 1)*	PRC	Distribution of consumer products.	2008	Personal computers and digital products.	30 or 60 days	2,622,351	11.9
Customer Group G *(Note 7)*	PRC	Distribution and retail of various consumer products (including but not limited to electrical appliances and computers).	2007	Personal computers and smartphones.	35 or 60 days	234,962	1.1
Customer C *(Note 3)*	PRC	Imports, exports and wholesale of various products (including but not limited to electrical appliances and metal materials).	2015	Smartphones.	Payment in advance	178,320	0.8
Customer H *(Note 8)*	PRC	Wholesale and retail of various products (including but not limited to computer software, hardware and communication devices).	2017	Smartphones and digital products.	7 days	120,684	0.5
Customer I *(Note 9)*	PRC	Distribution of communication devices and provision of communication systems installation and services.	2012	Network products.	90 days	120,319	0.5
Total						**3,276,636**	**14.8**

For the nine months ended 30 September 2019

Customers	Principal place of business	Principal business activities	Year in which business relationship with the Group commenced	Key products purchased	Credit term	Revenue contribution to the Group *(HK$'000)*	Contribution to the total revenue of the Group *(approximate %)*
Customer Group G *(Note 7)*	PRC	Distribution and retail of various consumer products (including but not limited to electrical appliances and computers).	2007	Personal computers and smartphones.	15 to 28 days	2,786,228	14.2
Customer Group A *(Note 1)*	PRC	Distribution of consumer products.	2008	Personal computers and digital products.	30 to 50 days	2,538,591	12.9
Customer M *(Note 11)*	PRC	Retail of electrical appliances, development of computer software and provision of logistics and after-sales services.	2017	Personal computers.	Payment in advance	109,929	0.6
Customer N *(Note 12)*	PRC	Development and retail of digital products and communication devices.	2019	Smartphones.	Payment in advance	106,484	0.5
Customer J *(Note 10)*	PRC	Wholesale and retail of electrical appliances and provision of computer system and maintenance services.	2009	Personal computers.	Payment in advance	105,526	0.5
Total						**5,646,758**	**28.7**

Note:

1. Customer Group A is a PRC-based leading e-commerce company and listed on NASDAQ in 2014. According to its latest annual report, it recorded a revenue of approximately US$67,198 million for the year ended 31 December 2018.

2. Customer B is a private company established in the PRC in 2012 and jointly owned by two individuals. According to National Enterprise Credit Information Publicity System, its registered share capital is RMB1 million.

3. Customer C is a state-owned wholesale company established in the PRC in 2006. According to its annual report posted on the National Enterprise Credit Information Publicity System, it recorded a revenue of approximately RMB732.4 million for the year ended 31 December 2018.

4. Customer D is a state-owned company established in the PRC in 2012. According to National Enterprise Credit Information Publicity System, its registered share capital is RMB2,000 million.

5. Customer E is a private company established in the PRC in 2012 and is jointly owned by three individuals. According to National Enterprise Credit Information Publicity System, its registered share capital of Customer E is RMB10 million.

6. Customer F is a retail and communications company established in the PRC in 2011. According to National Enterprise Credit Information Publicity System, its registered share capital is RMB76.7 million and is owned by a state-owned company which is listed on the Shanghai Stock Exchange in 1993.

7. Customer Group G comprises subsidiaries of a leading PRC-based e-commerce company which is listed on Shenzhen Stock Exchange in 2004. According to the latest annual report of the parent company of Customer Group G, it recorded revenue of approximately RMB244,956.6 million for the year ended 31 December 2018.

8. Customer H is a company established in the PRC in 2016 and owned by a PRC-based fintech company listed on NASDAQ in 2017. According to the annual report of the parent company of Customer H, it recorded revenue of approximately RMB7,596.9 million for the year ended 31 December 2018.

9. Customer I is a telecommunications company established in the PRC in 2011. According to National Enterprise Credit Information Publicity System, its registered share capital is RMB128.5 million and is controlled by a PRC state-owned enterprise.

10. Customer J is a private company established in the PRC in 1998 and is jointly owned by six individuals. According to National Enterprise Credit Information Publicity System, its registered share capital is RMB8 million.

11. Customer M is a logistics and distribution company established in the PRC in 2012. According to National Enterprise Credit Information Publicity System, its registered share capital is RMB2,000 million and is controlled by a company listed on the Shanghai Stock Exchange in 2010.

12. Customer N is a private company established in the PRC in 2015 and is jointly owned by two individuals. According to National Enterprise Credit Information Publicity System, its registered share capital is RMB10 million.

For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, the five largest customers accounted for approximately 12.6%, 15.1%, 14.8% and 28.7% of the total revenue of the Group, respectively. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, the largest customer accounted for approximately 7.3%, 9.3%, 11.9% and 14.2% of the total revenue of the Group, respectively. The five largest customers during the Track Record Period are Independent Third Parties and to the best knowledge and belief of the Directors, none of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors beneficially own more than 5% of the Shares) had any interests in any of the five largest customers of the Group during the Track Record Period. None of the customers were the Group's five largest suppliers during the Track Record Period.

During the Track Record Period, some of the customers became top five customers of the Group shortly after they commenced business relationship with the Group, set forth below the reasons of them:

In 2016, Customer B and Customer D commenced business relationships with the Group, purchased Brand B smartphones from the Group and became top five customers of the Group. Customer B and Customer D are trading companies which generate profits by trading various products with reference to the needs of their customers and markets. Given the opportunities recognised in trading of Brand B smartphones by Customer B and Customer D, relatively high contributions to revenue from Customer B and Customer D were recorded.

In 2017, Customer H commenced business relationship with the Group and became top five customers of the Group in 2018. Customer H is owned by a PRC-based fintech company listed on NASDAQ in 2017 and operates an e-commerce channel which is large in scale and has a wide customer base. According to the latest annual report of the parent company of Customer H, the e-commerce channel recorded revenue of approximately RMB5.8 billion in 2018. It is of the view that the business scale of Customer H led to the relatively high contribution to revenue from Customer H.

In May 2019, Customer N commenced business relationship with the Group, purchased Brand B smartphones from the Group and became top five customers of the Group. According to CIC, the sales volume of Brand B smartphones in the PRC during the third quarter of 2019 amounted to approximately 8.1 million units, representing an increase of approximately 5.6% as compared to the third quarter of 2018. It is of the view that the growth in market of Brand B smartphones led to the relatively high contribution to revenue from Customer N.

Suppliers

The Group's suppliers are IT products and/or services providers, some of whom are well-known international brands and PRC brands. Non-exclusive authorised distribution agreements are entered into between the Group and the suppliers, which are generally renewed on an annual basis. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, 28, 35, 49 and 66 suppliers had signed distribution agreements with the Group. Set out below are the details of the five largest suppliers of the Group and their background information during the Track Record Period.

For the year ended 31 December 2016

Suppliers	**Principal place of business**	**Principal business activities**	**Year in which business relationship with the Group commenced**	**Key products supplied**	**Credit term**	**Purchase amount** *(HK$'000)*	**Contribution to the total purchase of the Group** *(approximate %)*
Supplier Group A *(Note 1)*	PRC	Manufacture and distribution of computers and IT accessories.	2005	Personal computers and IT accessories.	30 days	5,509,101	28.2
Supplier Group B *(Note 2)*	PRC and Ireland	Manufacture and distribution of computers and IT accessories.	2006	Computers and IT accessories.	45 days	4,435,672	22.7
Supplier Group C *(Note 3)*	PRC	Trading of mobile devices, electrical appliances and IT accessories.	2015	Smartphones, personal computers and IT accessories.	Payment in advance	1,516,470	7.8
Supplier D *(Note 4)*	PRC	Manufacture and distribution of smartphones, computers and IT accessories.	2005	Smartphones, personal computers and IT accessories.	30 days	1,063,854	5.5
Supplier Group E *(Note 5)*	PRC	Retail of products (including but not limited to communication devices, computers and IT accessories).	2015	Smartphones, personal computers and IT accessories.	Payment in advance	978,184	5.0
Total						**13,503,281**	**69.2**

For the year ended 31 December 2017

Suppliers	Principal place of business	Principal business activities	Year in which business relationship with the Group commenced	Key products supplied	Credit term	Purchase amount *(HK$'000)*	Contribution to the total purchase of the Group *(approximate %)*
Supplier Group A *(Note 1)*	PRC	Manufacture and distribution of computers and IT accessories.	2005	Personal computers and IT accessories.	30 days	6,419,557	29.4
Supplier Group B *(Note 2)*	PRC and Ireland	Manufacture and distribution of computers and IT accessories.	2006	Personal computers and IT accessories.	45 days	4,574,303	20.9
Supplier D *(Note 4)*	PRC	Manufacture and distribution of smartphones, computers and IT accessories.	2005	Smartphones, personal computers and IT accessories.	30 days	1,201,807	5.5
Supplier Group F *(Note 6)*	PRC	Provision of telecommunication services and retail of communication devices.	2015	Smartphones, personal computers and IT accessories.	Payment in advance	1,064,431	4.9
Supplier Group C *(Note 3)*	PRC	Trading of smartphones, electrical appliances and IT accessories.	2015	Smartphones, personal computers and IT accessories.	Payment in advance	964,234	4.4
Total						**14,224,332**	**65.1**

For the year ended 31 December 2018

Suppliers	Principal place of business	Principal business activities	Year in which business relationship with the Group commenced	Key products supplied	Credit term	Purchase amount *(HK$'000)*	Contribution to the total purchase of the Group *(approximate %)*
Supplier Group A *(Note 1)*	PRC	Manufacture and distribution of computers and IT accessories.	2005	Personal computers and IT accessories.	30 days	5,999,190	26.3
Supplier Group B *(Note 2)*	PRC and Ireland	Manufacture and distribution of computers and IT accessories.	2006	Personal computers and IT accessories.	45 days	4,417,188	19.3
Supplier Group C *(Note 3)*	PRC	Trading of smartphones, electrical appliances and IT accessories.	2015	Smartphones, personal computers and IT accessories.	Payment in advance	1,199,920	5.3
Supplier Group G *(Note 7)*	PRC	Manufacture and distribution of computers and IT accessories.	2010	Personal computers and IT accessories.	30 days	926,538	4.1
Supplier D *(Note 4)*	PRC	Manufacture and distribution of smartphones, computers and IT accessories.	2005	Smartphones, personal computers and IT accessories.	30 days	682,600	3.0
Total						**13,225,436**	**58.0**

For the nine months ended 30 September 2019

Suppliers	Principal place of business	Principal business activities	Year in which business relationship with the Group commenced	Key products supplied	Credit term	Purchase amount *(HK$'000)*	Contribution to the total purchase of the Group *(approximate %)*
Supplier Group A *(Note 1)*	PRC	Manufacture and distribution of computers and IT accessories.	2005	Personal computers and IT accessories.	30 days	4,542,703	22.4
Supplier D *(Note 4)*	PRC	Manufacture and distribution of smartphones, computers and IT accessories.	2005	Smartphones, personal computers and IT accessories.	30 days	3,426,553	16.9
Supplier Group B *(Note 2)*	PRC and Ireland	Manufacture and distribution of computers and IT accessories.	2006	Personal computers and IT accessories.	45 days	3,152,813	15.6
Supplier Group G *(Note 7)*	PRC	Manufacture and distribution of computers and IT accessories.	2010	Personal computers and IT accessories.	30 days	750,962	3.7
Supplier Group C *(Note 3)*	PRC	Trading of mobile devices, electrical appliances and IT accessories.	2015	Smartphones, personal computers and IT accessories.	Payment in advance	604,903	3.0
Total						**12,477,934**	**61.6**

Notes:

1. Supplier Group A comprises subsidiaries of a PRC-based multinational technology company which is listed on the Main Board of the Stock Exchange in 1994. According to the latest annual report of the parent company of Supplier Group A, it is the largest personal computer company, accounted for 23.4% of market shares in the world for the year ended 31 March 2019. It also recorded a revenue of approximately US$51,037.9 million for the year ended 31 March 2019.

2. Supplier Group B comprises subsidiaries of an US-based multinational technology company which is listed on the New York Stock Exchange in 2018. According to the press release of the parent company of Supplier Group B regarding its fiscal year 2019 fourth quarter and full year financial results, it recorded revenue of approximately US$92,154 million for the year ended 31 January 2020.

3. Supplier Group C comprises subsidiaries of a PRC-based company which distributes communication products and engages chain retail of digital electronic products and is listed on the Shenzhen Stock Exchange in 2010. According to the latest annual report of the parent company of Supplier Group C, it recorded a revenue of approximately RMB56,983.8 million for the year ended 31 December 2018.

4. Supplier D is a subsidiary of an US-based multinational technology company which designs, manufactures and markets consumer electronics and sells a variety of related services and is listed on NASDAQ in 1980. According to the latest annual report of the parent company of Supplier D, it recorded a revenue of approximately US$260,174 million for the year ended 28 September 2019.

5. Supplier Group E comprises subsidiaries of a PRC-based e-commerce company which was listed on New York Stock Exchange in 2010 until it was taken private in 2016. According to National Enterprise Credit Information Publicity System, the registered share capital of the parent company of Supplier Group E is RMB20 million and is jointly owned by two individuals, two limited partnerships and one private company.

6. Supplier Group F comprises subsidiaries of a PRC-based company which engages in the provision of voice usage, broadband and mobile data services, as well as sales of telecommunications products and is listed on the New York Stock Exchange and the Main Board of the Stock Exchange both in 2000. According to the latest annual report of the parent company of Supplier Group F, it recorded a revenue of approximately RMB290,877 million for the year ended 31 December 2018.

7. Supplier Group G comprises subsidiaries of an US-based multinational technology company which is listed on the New York Stock Exchange in 1957. According to the latest annual report of the parent company of Supplier Group G, it recorded a revenue of approximately US$58,756 million for the year ended 31 October 2019.

For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, total purchases made from the Group's five largest suppliers accounted for approximately 69.2%, 65.1%, 58.0% and 61.6% of total purchase of the Group, respectively. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, total purchases made from the Group's largest supplier accounted for approximately 28.2%, 29.4%, 26.3% and 22.4% of total purchase of the Group, respectively. The five largest suppliers during the Track Record Period are Independent Third Parties and to the best knowledge and belief of the Directors, none of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors beneficially own more than 5% of the Shares) had any interests in any of the five largest suppliers of the Group during the Track Record Period.

Agreements with suppliers

The Group typically enters into distribution agreements with its suppliers. The terms of the distribution agreements entered into by the Group varies with each supplier. However, the principal terms of the agreements and arrangements with the suppliers are generalised as follows:

Duration:	The term is usually one year, subject to renewal either automatically or otherwise as agreed.
Minimum purchase requirement:	As at 30 September 2019, 14 suppliers had set a minimum annual purchase amount ranging from HK$2.3 million to HK$166.1 million, but, save for potential termination of distribution agreements, there is no penalty for any failure of the Group to attain the minimum annual purchase amount. The Group will not be granted with certain rewards or sales rebates if the minimum annual purchase amount is not attained as per certain distribution agreements.
Pricing:	Pricing of products for onward sales to the Group's sub-distributors are generally determined according to a guiding price given by the supplier. For details of the pricing policy, please refer to the section headed "PRICING" of this announcement.
Payment and credit terms:	The suppliers may provide discretionary trade credit/credit terms to the Group. The credit terms provided by the suppliers range from 30 days to 90 days.

Rebates and/or rewards:	Some suppliers provide rebates to the Group, including bonus given to the Group for goods of which turnover during the relevant period exceeds the expected turnover, sales discount offered by suppliers to the Group for goods paid by cash received from suppliers and rewards for conducting marketing and promotional activities by the Group.
After-sales services:	After-sales services are either provided by the Group as authorised by and costs of which are borne by the suppliers, or provided by the suppliers directly.
Termination and renewals:	Some suppliers are entitled to terminate the distribution agreement under various scenarios by giving the Group a prior written notice which would become effective immediately on the date of the notice or with a notice period of up to 90 days.
	Some suppliers and the Group may terminate the distribution agreement at any time with or without cause by either party serving to the other party, a prior written notice with a period specified in the distribution agreements.

SUB-DISTRIBUTORS

Most of the Group's sub-distributors are designated, recommended or approved by suppliers. The Group identified sub-distributors on its own by the following means: (i) conducting seminars or conferences for sub-distributors, (ii) through the Company's website, (iii) by media promotion, and (iv) sales of products to existing sub-distributors in addition to products they have been purchasing from the Group. Among these sub-distributors identified by the Group, the Group is required to obtain approval from certain suppliers for distributing their products. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, the revenue attributable to sub-distributors designated, recommended or approved by the Group's suppliers are HK$14,386.9 million, HK$15,587.2 million, HK$16,716.7 million and HK$15,840.4 million, respectively, accounted for approximately 77.5%, 76.4%, 78.0% and 84.0% of total revenue generated from the sub-distributors.

	As at 31 December			**As at 30 September**
	2016	**2017**	**2018**	**2019**
No. of sub-distributors designated, recommended or approved by the Group's suppliers	7,734	8,110	8,717	7,743
Approximate % of such sub-distributors to the total number of the Group's sub-distributors	85.1%	83.2%	80.1%	82.4%

The following table sets forth the changes in the number of sub-distributors of the Group and the revenue attributable to new sub-distributors during the Track Record Period:

	For the year ended 31 December			**For the nine months ended 30 September**
	2016	**2017**	**2018**	**2019**
No. of sub-distributors at the beginning of the period	9,257	9,083	9,747	10,878
No. of addition of new sub-distributors	3,963	4,391	5,081	3,505
No. of inactive sub-distributors *(Note)*	(4,137)	(3,727)	(3,950)	(4,983)
Net change in sub-distributors	(174)	664	1,131	(1,478)
No. of sub-distributors at the end of the period	9,083	9,747	10,878	9,400
Amount of revenue attributable to new sub-distributors *(HK$'000)*	4,478,306	4,844,364	5,367,122	5,397,802

Note: *"Inactive sub-distributors" refer to those sub-distributors which had not entered into any transaction with the Group during the relevant financial year/period.*

The number of sub-distributors decreased from 10,878 as at 31 December 2018 to 9,400 as at 30 September 2019. The reasons for the decrease are mainly due to (i) the sub-distributors which designated, recommended or approved by the Group's supplier for distributing certain types and/or models may change from time to time, which results in some sub-distributors becoming inactive, and (ii) there was a relatively shorter period of time, that is, nine months as compared with twelve months for the year ended 31 December 2018, for a sub-distributor to enter into transaction with the Group, through which a sub-distributor may become active again in the the fourth quarter of 2019.

Management of sub-distributors

Agreements with sub-distributors

The Group typically enters into cooperation agreements with its sub-distributors and may renew upon the expiration of these agreements. The cooperation agreements the Group entered into with sub-distributors include (i) the cooperation agreements with standard terms provided by the Group and (ii) the cooperation agreements with terms provided by sub-distributors, and are indicative of the long-term cooperation between the Group and the sub-distributors. The Group also enters into individual sales agreement for each purchase made by the sub-distributors who did not enter into cooperation agreements with the Group.

For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, the revenue attributable to sub-distributors that had entered into cooperation agreements with the Group were HK$11,731.1 million, HK$12,434.0 million, HK$11,252.7 million and HK$12,585.8 million, accounted for approximately 63.2%, 61.0%, 52.5% and 66.8% of total revenue generated from the sub-distributors, respectively.

(i) Cooperation agreements with standard terms provided by the Group

As at 30 September 2019, 4,275 sub-distributors had entered into non-exclusive cooperation agreements with standard terms provided by the Group. The principal terms of the cooperation agreements are summarised as follows:

Duration:	The term is typically two years, subject to automatic renewal 30 days before the expiry of the agreement unless otherwise agreed.
Geographical territory:	Sub-distributors are only allowed to sell the products in China.
Purchase order:	For each purchase, sub-distributors are required to place an purchase order with the Group according to the methods specified in the cooperation agreements.
Minimum purchase requirement:	For each purchase order, the minimum purchase amount ranging from RMB5,000 to RMB20,000 depending on products and delivery arrangements.
Payment and credit terms:	Full payment is normally required before pick-up/delivery of products. The Group may provide discretionary trade credit/credit terms to certain sub-distributors based on their scale of operation, historical purchase amount, years of business relationship with the Group and credit history.

Product delivery:	The sub-distributor is entitled with free one-time delivery to a single destination for each purchase. Other delivery arrangements are subject to additional fee paid by the sub-distributor.
End pricing:	The Group may provide the sub-distributors with pricing guidelines for various products set by the Group's suppliers. Sub-distributors are not allowed to deviate from the range permitted under the Group's suppliers' pricing guidelines.
Sales record:	Sub-distributors are required to provide data of their inventory level and/or sales figures of the products purchased from the Group periodically at the request of the Group.
Products return:	Sub-distributors may return the purchased products to the Group after the Group has given written approval. The cost of the return including transportation and other related fees will be borne by the sub-distributors.
After-sales services:	After-sales services (if any) are provided by the Group's suppliers.
Termination right:	The Group is entitled to terminate the cooperation agreement under various scenarios.

(ii) Cooperation agreements with terms provided by the sub-distributors

Sub-distributors entering into this type of cooperation agreement are e-commerce or chain store retailers. As at 30 September 2019, the Group had entered into non-exclusive cooperation agreements with 21 sub-distributors with terms provided by such sub-distributors.

The principal terms of the cooperation agreements are summarised as follows:

Duration:	The term varies from one to three years, renewal is subject to negotiation upon expiry.
Purchase order:	For each purchase, sub-distributors are required to place an purchase order with the Group according to the methods specified in the cooperation agreements.
Payment and credit terms:	The Group usually grants credit terms to the sub-distributors.

Products return:	Sub-distributors may return purchased products when the products contain quality defects.
After-sales services:	After-sales services are usually provided by the Group within the warranty period.
Termination:	Either party may give certain notice period to the other party to terminate the cooperation agreement, save and except for one cooperation agreement states the sub-distributor is entitled to terminate the cooperation agreement with immediate effect.

Inventory Management

The Group has adopted an ERP system to constantly monitor its inventory level. In order to maintain accurate inventory records, the Group conducts monthly, quarterly and yearly inventory counts to ensure the actual inventory level matches the inventory information stored in its ERP system. The Group also implemented measures to monitor inventory of certain IT products at sub-distributor level. As stipulated in the cooperation agreements with standard terms provided by the Group, the sub-distributors are required to provide data of their inventory level and/or sales figures of the products purchased from the Group at the request of the Group. For sub-distributors who enter into individual sales agreements with the Group for each purchase, the sub-distributors usually enter into individual sales agreements with reference to either the confirmed orders received by the sub-distributors or orders under negotiation, for which the risk of channel stuffing is low. The Group actively monitors the inventory level and/or sales figures of the sub-distributors by contacting the sub-distributors periodically by telephone, email and instant messaging. By reviewing the inventory level and sales figures collected, the Group assesses the condition of the market and adjusts supply of products to the sub-distributors. If the Group notices any slow-moving product from the sub-distributor, the Group will help to set up promotion and marketing campaigns for relevant slow-moving products with the relevant sub-distributor in order to effectively clear the stocks. During the Track Record Period, the Group actively prevents and is not aware of any material channel stuffing of the Group's products among the sub-distributors. The average inventory turnover days of the Group were 29 days, 29 days, 37 days and 31 days for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively.

Criteria for Selection of Sub-Distributors

As mentioned above, other than the sub-distributors designated or recommended by the Group's suppliers, the Group also identifies sub-distributors on its own. The Group selects sub-distributors based on stringent criteria, including their business qualifications, scale of operations, industry experience, retail capabilities, reputation, financial condition, logistics and transport capabilities and their compliance records with the applicable laws and regulations in relation to their operations. Prior to engaging a new sub-distributor, the Group conducts examinations of their business licences and other legal documents and may perform on-site inspections to assess the operating platforms, inventory control and logistics support of such sub-distributor.

Payment Terms and Credit Policy

The Group may grant trade credit and/or credit terms to sub-distributors after taking into account its trade volume, background, credit history and business relationship with the Group. According to the Group's internal policy, depending on the requested credit amount and/or credit terms, heads of different departments and ultimately the credit control assessment department will review the request and approve the trade credit and/or credit terms. The Group may grant certain credit limits to the sub-distributors for a period of time and/or one-off trade credit to the sub-distributor for individual orders it places. The Group may also shorten the credit term or reduce the credit limit previously granted to a sub-distributor. During the Track Record Period, the Group allowed an average credit term of 30 to 180 days to the sub-distributors. The average trade and bills receivables turnover days of the Group were 26 days, 25 days, 26 days and 28 days for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively.

Return Policies

According to the cooperation agreements with standard terms provided by the Group, sub-distributors may return the purchased products to the Group after the Group has given written approval. The Group accepts products return when the products contain quality defects. For requests of products return, the customers are required to sign sales return contracts for the products to be returned to the Group, and the sales return contracts shall be approved by the relevant sales department of the Group. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, the amount of sales return was approximately HK$7.1 million, HK$6.9 million, HK$7.1 million and HK$6.1 million, respectively.

PRICING

For prices that the Group charges its customers, nine of the suppliers had set fixed prices or floor prices for particular products and 46 of them offered guiding prices as at 30 September 2019. For products with fixed-prices set by the suppliers, the Group would strictly follow the fixed prices set by the suppliers. For products with floor prices set by the suppliers, the Group would make reference to the said floor prices and the market condition to set the prices of the products charged to its customers and the charged prices will not fall below the floor prices. For products with only guiding prices or no restrictions on pricing, the Group would determine the prices charged to its customers with reference to the guiding prices (if any) and the market situation.

INDUSTRY OUTLOOK AND RECENT DEVELOPMENT

Market size of the IT product distribution industry

The market size of the IT product distribution industry increased from RMB336.1 billion in 2014 to RMB440.7 billion in 2018, representing a CAGR of 7.0%. The distribution of IT consumer products is characterised by large shipment volume, large sales revenue and low profit margins, accounting for approximately 60.1% of the total market in 2018. The shipments of traditional IT consumer products including personal computers and tablets have decreased in the past five years as a result of market saturation. However, the shipment of digital products such as smart wearables, virtual reality headsets, e-readers and unmanned aerial vehicles witnessed strong growth momentum. It is expected that the distribution of IT consumer products will increase from RMB264.8 billion in 2018 to RMB309.6 billion in 2023, representing a CAGR of 3.2%. As for IT corporate products, the rapid development of China's internet industry and the digitalisation trend in the traditional industries has stimulated significant demand. Moreover, the emergence of cutting-edge technologies, such as cloud computing, artificial intelligence and IoTs has led to the continuous growth of investment in IT corporate products by enterprises. As such, the market size of the IT corporate product distribution segment has increased continuously over the past five years, reaching RMB175.9 billion in 2018. It is expected that the distribution of IT corporate products will increase to RMB305.6 billion by 2023, with the popularity of intelligent digital products. The overall distribution of IT corporate products will maintain double-digit growth in the next five years mainly driven by the following factors:

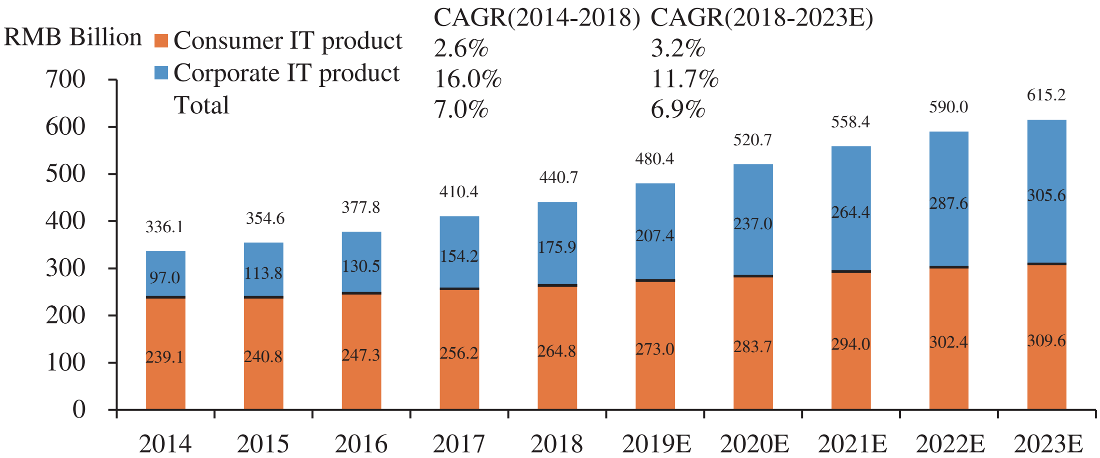
Digital transformation: Digital transformation relies on investment in IT products such as intelligent hardware, software, servers, and storage devices that are used to digitalise information, store data, analyse data and ultimately achieve business improvement. Since digitalisation unlocks new levels of prosperity for both industry and society, enterprises have been consistently investing in digital transformation in recent years. Digital transformation drives demand for IT products and will continue to promote the development of the IT distribution industry for the near future.

Emergence of numerous digital products: As computing technology becomes more advanced and less expensive, it can be integrated into an increasing number and variety of devices. This has stimulated the emergence of numerous intelligent consumer devices, such as smart wearables, virtual reality headsets, unmanned aerial vehicles and etc. The market of these new types of intelligent devices has been experiencing rapid growth in recent years and the growth momentum is expected to continue, providing a steady boost for the IT product distribution industry.

Promotion of cloud computing: Cloud computing is the delivery of computing services including servers, storage, networking, software, and intelligence over the Internet to offer faster innovation, flexible resources, and economies of scale. The market size of public cloud computing services increased from RMB7.0 billion in 2014 to RMB38.3 billion in 2018. A large number of hardware and software elements are needed to establish cloud computing infrastructure. IT product distributors will benefit from the rapid development of the cloud computing services industry, by providing related products, services, and solutions.

Integrated solutions: The emergence of cutting-edge technologies, such as artificial intelligence, big data, and IoT technologies, brings added prosperity to both industry and society. However, it is inefficient for technology giants to customise their products to fit every customer's business needs; it usually requires a combination of various devices and technologies to form a mature enterprise solution. As the communication bridge between technology giants and downstream customers, IT product distributors can provide customised solutions for enterprises across various industries by combining particular technologies and products.

Market size of the IT product distribution industry, China, 2014-2023E



Source: China Insights Consultancy

Recent Business Development

To expand the Group's e-commerce business, on 12 April 2019, WFOE, OPCO and Sichuan Changhong Electronics, the registered shareholder of OPCO, entered into the VIE Agreements. Through the VIE Agreements, WFOE will have effective control over the finance and operation of OPCO and will enjoy the entire economic interests and benefits generated by OPCO. The Group intends for OPCO to establish a new business-to-business e-commerce platform (the "**Platform**"), which will connect third-party merchants with each other, primarily including upstream and downstream secondary distributors, resellers and manufacturers in the information and communications technology industry. The Platform will allow third-party merchants transact amongst themselves on the Platform with the support of the transaction processing and payment services from the Group, and the sellers will pay commission to the Group which is expected to be approximately 0.2% to 0.8% on their sales amount. The Group will also provide other value-added services like marketing, online shop management, marketing and big data analysis services in exchange of service fees which would be determined with reference to market rates and the business operation status of the Platform.

The VIE Agreements have been approved by the Shareholders at the special general meeting of the Company held on 17 May 2019. OPCO commenced its business by launching the Platform in September 2019. The Group is striving to promote the Platform to third-party merchants through various online and offline channels including trade conferences and internet promotions. The Company believes that its scale and market leading position in the IT product distribution market, the efficient and user-friendly system, the secure online payment services as well as the extra value-added services also enable the Platform to attract third party merchants. As at the Latest Practicable Date, the Platform was supported by 37 employees and had over 6,900 registered buyers and over 300 registered sellers. It has yet to recognise any revenue to the Group as the services have been provided free of charge for promotion purpose. While the Group will continue to focus on its IT product distribution business, the Company believes that the Platform will complement and promote the development of its core business and help the Group to promote the "Changhong IT" business brand to the IT industry. With the growth of such platform, the Company expects it will begin to charge for the services in the second half of 2020 and reach breakeven in 2022, while the loss recorded and expenses incurred before breakeven would be insignificant to the Group's financial performance. As such, the Company is of the view that the entry of the VIE Agreements as well as the establishment of the Platform will create a new revenue stream to the Group and more value for the Shareholders hence is in the interests of the Company and the Shareholders as a whole. In particular, the Company considers the interest of Sichuan Changhong Electronics in OPCO aligns with that of the Group, as, on the one hand, the effective control over the finances and operations of the OPCO has been vested in the Company pursuant to the VIE Agreements despite the registered equity ownership being retained by Sichuan Changhong Electronics, and on the other hand, Sichuan Changhong Electronics is the Controlling Shareholder and the results of the Company have been consolidated into the accounts of Sichuan Changhong, which is in turn accounted for as the subsidiary of Sichuan Changhong Electronics under applicable PRC generally accepted accounting principles. Therefore, both Sichuan Changhong Electronics and Sichuan Changhong will continue to benefit from any potential upside in the Group's business with respect to the Platform.

Based on the unaudited consolidated management accounts of the Group for the year ended 31 December 2019, the revenue has increased considerably as compared to the corresponding period in 2018, which was primarily due to the increase of sales of digital products, storage products, PC servers and smartphones. The gross profit margin has remained stable subsequent to the Track Record Period.

Impact of the outbreak of COVID-19 on the Group

Since December 2019, the COVID-19 outbreak first identified in Wuhan has been affecting over 80,000 people in China as at 2 March 2020, with an escalating rate of infection across different provinces in the PRC. The PRC government has taken various drastic measures in February to curb the spread of COVID-19, such as temporarily suspension of immigration of Wuhan and other cities in Hubei Province, limiting all transportation methods to and from the Wuhan and other cities in Hubei Province, and compulsory quarantine of 14 days for people from Hubei Province and other severe infected provinces since arriving in other areas of PRC. Citizens are recommended to remain at home and avoid unnecessary short-haul and long-haul travels. The PRC government has officially delayed the first working day after Chinese New Year to 2 February 2020 nationwide which was three days longer than the original Chinese New Year holiday. Local governments, such as Beijing and Shanghai, have further delayed the first working day after Chinese New Year by five working days to 10 February 2020, while encouraging enterprises to adopt the work-from-home arrangement to avoid the close contact of people after 10 February 2020. Many local governments have implemented strict rules regarding the resumption of work for enterprises. Enterprises are requested to apply for the re-open of offices and report the health conditions of all employees on a daily basis. As of 2 March 2020, many enterprises have yet to open their offices for business or have resumed to provide limited services with the work-from-home arrangement, especially for the service sector. Retail industry, with off-line stores which have yet to resume operation as of 2 March 2020, may see losses in revenue and in turn affect the whole value chain. However, with the limited services of the off-line channels, the online retail channels are expected to see a growth trend.

For IT product distribution industry, the major products distributed are IT consumer products and IT corporate products. These two categories of products may result in different levels of impact.

For IT consumer products, with temporary closure or limited operation of off-line retail channels, the sales generated from off-line retail channels are expected to see a decline compared with the same period in 2019. However, as the off-line channels turned passive, some of the consumers may switch to online channels for consumption of IT consumer products. As a result, the sales of IT consumer products, combining the impact on both the off-line and online sales channels, is expected to see only slight decline. As the IT consumer products are usually daily necessities, the sales will regain momentum after the outbreak of COVID-19. The yearly sales of IT consumer products will see limited fluctuation.

For IT corporate products, including servers, storage devices, network products, etc., are expected to see a growth. The increasing demands towards e-commerce platforms and work-related software platforms with the work-from-home and study-from-home arrangement will elevate the utilisation rate of back-end hardware and software for internet firms. It was reported that multiple internet firms equipped with new servers to cope with the surge in usage. The sales of IT corporate products will see unusual increase during the outbreak of COVID-19.

In conclusion, the outbreak of COVID-19 will affect the demand for IT products in China with mixed conditions. However, at this moment, with the outbreak of COVID-19 lasted for less than two months, the impact to the overall IT product distribution industry remains limited.

Operational impact on the Group

Due to the outbreak of COVID-19 and the implementation of relevant government policies, the Group has delayed the reopening some of its office after the Chinese New Year holiday till 10 February 2020 and some on 17 February 2020, and adopted the work-from-home arrangement for certain staff. Upon the reopening of the office, the Group implemented enhanced hygiene measures such as ensuring that our offices are regularly sanitised, requiring staff to wear face masks at all times at workplace, requiring staff to cooperate with health checks on a daily basis, etc. Since the outbreak of the COVID-19 and up to the Latest Practicable Date, none of our employees had been confirmed with COVID-19 and none of them had failed to report duty as a result thereof.

The business operation of the Group, the Group's customers and suppliers are decentralised in difference parts of the PRC, instead of dominated in the Hubei Province, the Group sees no material impact to the operation of the Group with the outbreak of COVID-19.

Since the outbreak of the COVID-19 and up to the Latest Practicable Date, there had been no material disruptions to the procurement or delivery of products from our suppliers to us and the delivery of products to the customers. In view of the nationwide resumption of work, the Group is optimistic towards the operation of the supply chain and delivery logistics.

Financial impact on the Group

The Group has been actively reviewing the potential financial impact brought to the Group due to, including but not limited to, the outbreak of COVID-19 and the seasonal effect brought by the Chinese New Year. Based on the Group's sales records for the period from 1 January 2020 to 20 February 2020, the Group recorded an increase in orders amount as compared to the same period in 2019. Upon preliminary review the Group is of the view that the financial impact to the Group was mild.

Solely for illustrative purpose and assuming the worst case scenario that may be caused by the COVID-19 outbreak, which its operation is suspended, and that the Group continue to operate and incur fixed costs such as staff costs, rental and related expenses, utilities, interest payment for bank borrowing and other miscellaneous fixed costs, based on the existing cash and bank balances as at 31 January 2020, the Group estimate that the Group's existing cash and bank balances could support the operation for approximately 15 months.

Moving forward, the Group will keep on promoting strategic upgrading towards becoming an IT comprehensive service provider, and carry on the implementation of the business strategy of "All Channels, Specialisation, 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 digitalisation transformation while making a greater contribution to the Shareholders.

LITIGATION AND LEGAL COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, the Directors confirm that (i) no litigation or claims of material importance were ongoing, pending or threatened against any member of the Group; (ii) the Group has complied with laws and regulations in all material aspects for its business; and (iii) the Group did not have any material non-compliance with applicable laws and regulations.

Since the Listing Date and up to the Latest Practicable Date, the Directors confirm that the Group has not been subject to any disciplinary action or investigation by regulators in respect of serious or potentially serious breach of any GEM Listing Rules.

MATERIAL RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

The Group's customers may order IT products directly from the Group's suppliers

The Group's customers are primarily sub-distributors of IT products in the PRC. The Group also sells IT products to end-users such as enterprises, government authorities, financial institutions, health authorities, education institutions, railway companies and electricity companies in the PRC. The Group maintains a network of customers with business relationships up to 15 years. There is no assurance that the Group's customers would not order those IT products directly from the Group's suppliers. In the event that the Group's customers order IT products directly from the Group's suppliers, the Group's business and financial results may be adversely affected.

The Group relies on a small number of key suppliers and products. The Group's failure to maintain a good relationship with these suppliers may adversely affect the Group's revenue and profitability.

The Group is a non-exclusive authorised distributor of certain IT products in the PRC for a number of renowned IT product suppliers/brands. The Group's five largest suppliers accounted for approximately 69.2%, 65.1%, 58.0% and 61.6% of the Group's total purchases for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively. Reliance on a small number of suppliers generally involves several risks, including loss of market share in a supplier's products, failure of a supplier to maintain updates on IT technology changes or consumer preference, a shortage of product supply, reduced control over costs and loss of such supplier.

Furthermore, most of the distribution agreements that the Group has entered into with the Group's suppliers are non-exclusive, which may be terminated by the suppliers at any time by giving the Group a prior written notice which would become effective immediately on the date of the notice or with a notice period of up to 90 days. There is no assurance that the existing distribution agreements will be renewed upon its expiry date or when renewed, will be on commercially acceptable terms to the Group. If the Group's relationship with a key supplier is terminated or deteriorated for any reason, the Group's revenue and profitability may be materially and adversely affected, particularly when the Group is unable to identify alternative sources of supply for the same or similar products in a timely manner.

The Group may not be able to identify and/or obtain new sub-distributors.

Most of the Group's sub-distributors are designated or recommended by its suppliers. The Group also identified sub-distributors on its own through various means. Among these sub-distributors identified by the Group, the Group is required to obtain approval from certain suppliers for distribution of their products. The revenue growth of the Group depends on, to a certain extent, the Group's ability to identify and/or obtain new sub-distributors. For the three years ended 31 December 2018 and the nine months ended 30 September 2019, the Group's revenue of approximately HK$4,478.3 million, HK$4,844.4 million, HK$5,367.1 million and HK$5,397.8 million, respectively, was attributable to sales to new sub-distributors, representing approximately 24.1%, 23.8%, 25.0% and 28.6% of the total revenue generated from the sub-distributors during the Track Record Period, respectively. If the Group is unable to identify and/or obtain new sub-distributors either through its own channels or through the suppliers, the revenue and profitability of the Group may be adversely affected.

The Group may face an inventory risk if stock levels are not properly monitored or managed

The inventory of the Group consists mainly of IT products and other components. These comprised approximately 35.0%, 42.8%, 39.2% and 32.1% of the Group's current assets during the Track Record Period. In practice, the Group maintains its inventory at a certain level with reference to its sales plan. As such, if there is any sudden change in the demand of IT products, the Group may face an inventory risk if stock levels are not properly monitored or managed. Should the Group fail to manage its inventory properly, provisions will have to be made for slow-moving stocks, which may adversely affect the Group's profitability.

The Group's increase in sales might be represented by accumulation of inventory at the sub-distributor level rather than growth in underlying demand from end-users

The Group's revenue from the sales to the sub-distributors is recognised upon delivery of goods to the sub-distributors on which the risks and rewards of ownership to the products has transferred to the sub-distributors and the title is treated to have been passed to the sub-distributor in substance. The existing measures implemented by the Group to monitor inventory of certain IT products at sub-distributor level may not be as effective as the Group expects in tracking the inventory levels and sales of the Group's sub-distributors, in particular, inventory levels and sales of products may be affected by the products which contain quality defects which may be returned to the Group. As a result, the Group's sales to sub-distributors may not be reflective of the actual sales trends to customers and it cannot rule out the possibility that the information regarding the Group's increase in sales may not fully represent the actual growth in underlying demand from end-users but also reflect certain accumulation of inventory at sub-distributor level. Further, the return of the products which contain quality defects to the Group may adversely affect the Group's revenue.

The Group's competitiveness depends on its ability to keep pace with the technological advancement and anticipate the change in market trends in the industry.

The IT industry is technology-intense and highly dynamic in technological advances. The success of the Group's business is largely attributable to its ability to keep pace with the latest development of IT products and solutions in the market and source IT products and solutions that suit the needs of its customers. The Group's decision of introduce new IT products and solutions is based on a number of factors, including anticipated demand from its customers, trend and development of IT products and solutions, as well as its assessment of the market reception for the new IT products and solutions based on the Group's industry experience. If the Group fails to accurately predict and/or adequately respond to the evolving customers' needs and preferences, it may loss market share in the competition and its business results of operations and financial condition may be materially and adversely affected.

The Group primarily relies on the PRC market in developing its business and its business in the PRC may not contribute to the results in the manner as anticipated.

During the Track Record Period, the Group generated a substantial portion of its revenue from its operations in the PRC. The Group anticipates that its business in the PRC will continue to be its core business following the Transfer of Listing. If the PRC experiences any adverse economic conditions due to event beyond the control of the Company, such as trade wars, economic downturns, natural disasters, contagious disease outbreaks or terrorist attacks, or if the authorities adopt regulations or policies that place additional restrictions or burdens on the Group or the industry it operates in general, the overall business and results of operations of the Group may be materially and adversely affected. In addition, the Group has limited experience in operating businesses in other places, and may have difficulties in relocating its core business to other geographic markets. Therefore, if there is any deterioration in the economic, political and regulatory environment in the PRC, the business of the Group may be materially and adversely affected.

The Group has thin profit margins and it may not able to sustain its historical profitability in the future

The IT product distribution industry is highly competitive and the profit margin is thin. During the Track Record Period, the Group's gross profit margin were approximately 4.0%, 3.7%, 3.8% and 3.5%, respectively while its net profit margin were approximately 1.2%, 1.2%, 1.2% and 1.2%, respectively. The sustainability of the Group's net profit margin may be affected by a number of factors, including, among other things, the selling prices, purchase costs and combination of the IT products sold. The selling price and purchase cost for each order vary according to a combination of factors including, but not limited to, the relative bargaining power of both of the Group's suppliers and customers, the pricing basis, the general demand and supply in the market and the market price. Therefore, the selling price and purchase cost for each order may differ even for the same product produced within the same time period. Many of these factors are beyond the control of the Group. The Group's thin profit margins may be adversely affect its working capital sufficiency and sensitivity to unfavourable changes in the selling prices, costs and interest rate. There is no assurance that the Group will be to maintain its gross profit margins or net profit margins during the Track Record Period at similar level in the future. If the Group experiences any fluctuations in its gross profit margins or net profit margins, its business, financial condition and results of operation may be adversely affected.

The Group's sub-distributors may engage in price competition and market cannibalisation among themselves

The Group typically enters into cooperation agreements with its sub-distributors and may renew upon the expiration of these agreements. As at 30 September 2019, 4,275 sub-distributors had entered into non-exclusive cooperative agreements with standard terms provided by the Group. Such cooperation agreements only allow the sub-distributors to conduct sales within China and do not contain any restrictions or exclusivity on the provincial or regional location for the sales conducted by the sub-distributors. The sub-distributors of the Group may sell same products purchased from the Group in the same area, which may cause fierce competition between the sub-distributors of the Group. Further, the Group does not have full control over the selling prices for the distributed products sold by sub-distributors. As such there is no assurance that the sub-distributors would not engage in any form of price competition or market cannibalisation which may cause adverse damage to the brand image of the products distributed by the Group and eventually affect the Group's revenue.

Any occurrence of severe communicable disease outbreaks in the PRC or elsewhere, if uncontrolled, may cause damage to economies, financial markets and business activities in the PRC and elsewhere, which in turn could result in material adverse effect on the business of the Group

The Group's business could be adversely affected by any outbreak, epidemics and/or pandemics of infectious or contagious diseases in the PRC. The recent outbreak of COVID-19 and/or any spread of severe contagious disease such as the avian flu, H1N1 flu and SARS, or any similar public health problems may have a material adverse effect on the overall business sentiment and environment of the PRC. The Group's operations may be affected by various health-related factors, including travel restrictions, quarantines, or closures of some of its offices, major adverse health issues for key personnel, and a general downturn of the economy. This could in turn have a material negative impact on the Group's business, results of operations and financial performance.

The Group may grant trade credit to sub-distributors which may expose the Group to credit and liquidity risks

During the Track Record Period, the Group normally grant credit terms to its customers ranging from 30 to 180 days. There may be a risk of delay in payment by the Group's customers from their respective credit period, which in turn may result in an impairment loss provision. There is no assurance that the Group will be able to fully recover its receivables from the customers or their settlements are made timely. In the event the settlements from the customers are not made in full or not on time, the financial position, profitability and cash flow of the Group may be adversely affected.

FINANCIAL INFORMATION OF THE GROUP

The following table sets forth the consolidated statement of profit or loss and other comprehensive income of the Group for the years/periods indicated:

	For the year ended 31 December			For the nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	(Unaudited)
Revenue	19,063,248	21,024,255	22,098,076	15,994,807	19,678,155
Cost of sales	(18,306,118)	(20,255,406)	(21,266,681)	(15,381,301)	(18,982,685)
Gross profit	757,130	768,849	831,395	613,506	695,470
Other income	28,452	27,100	46,266	27,290	35,620
Distribution and selling expenses	(284,624)	(285,494)	(306,008)	(194,437)	(219,598)
Research and development expenses	(14,314)	(8,842)	(26,012)	(23,713)	(5,319)
Administrative expenses	(114,679)	(116,191)	(123,485)	(81,095)	(116,103)
Finance costs	(41,017)	(40,224)	(54,011)	(35,898)	(64,330)
Impairment loss on trade receivables, net	(14,344)	(18,365)	(1,748)	(4,423)	(5,269)
Exchange (loss) gain, net	(6,438)	1,253	(8,246)	(8,498)	(9,037)
Profit before tax	310,166	328,086	358,151	292,732	311,434
Income tax expenses	(85,402)	(83,560)	(88,001)	(79,241)	(80,176)
Profit for the year/period from continuing operation	224,764	244,526	270,150	213,491	231,258
Profit for the year/period from discontinued operation	8,007	–	–	–	–
Profit for the year/period attributable to the owners of the Company	232,771	244,526	270,150	213,491	231,258
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	–	111,650	(96,038)	(101,684)	(60,985)
Item that may be reclassified subsequently to profit or loss:					
Exchange differences arising from translation of foreign operations	(98,397)	–	–	–	–
Total comprehensive income for the year/period attributable to owners of the Company	134,374	356,176	174,112	111,807	170,273
Earnings per share					
Basic and diluted *(HK cents)*	9.06	9.51	10.51	8.31	9.00

Revenue

The revenue of the Group is mainly derived from the distribution of (i) IT consumer products including personal computers and digital products and IT accessories; (ii) IT corporate products including storage products, network products, PC servers, IBMS products and UC&CC products; and (iii) others including smartphones, self-developed and customised products as well as the provision of IT services.

The following table sets forth the revenue by product categories and products for the years/periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	HK$'000	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*
							(Unaudited)		(Unaudited)	
IT Consumer Products										
Personal computers	9,190,379	48.2%	10,027,881	47.7%	10,039,406	45.4%	7,693,669	48.1%	7,467,451	37.9%
Digital products and IT accessories	612,965	3.2%	781,459	3.7%	1,013,811	4.6%	688,351	4.3%	1,450,646	7.4%
Sub-total	**9,803,344**	**51.4%**	**10,809,340**	**51.4%**	**11,053,217**	**50.0%**	**8,382,021**	**52.4%**	**8,918,097**	**45.3%**
IT Corporate Products										
Storage products	1,818,499	9.5%	2,129,256	10.1%	2,829,900	12.8%	2,028,206	12.7%	2,462,997	12.5%
Network products	1,501,740	7.9%	1,588,592	7.6%	1,914,890	8.7%	1,361,652	8.5%	1,566,045	8.0%
PC servers	787,932	4.1%	961,497	4.6%	1,078,354	4.9%	814,379	5.1%	961,929	4.9%
IBMS products	636,737	3.3%	682,161	3.2%	862,262	3.9%	630,486	4.0%	572,742	2.9%
UC&CC products	227,105	1.2%	199,233	1.0%	291,145	1.3%	197,188	1.2%	233,286	1.2%
Sub-total	**4,972,014**	**26.1%**	**5,560,739**	**26.5%**	**6,976,552**	**31.6%**	**5,031,910**	**31.5%**	**5,797,000**	**29.5%**
Others										
Smartphones	3,980,477	20.9%	4,424,001	21.0%	3,850,313	17.4%	2,420,511	15.1%	4,809,320	24.4%
Self-developed and customised products	214,874	1.1%	52,575	0.3%	83,276	0.1%	16,735	0.1%	18,232	0.1%
IT services	92,539	0.5%	177,600	0.8%	134,718	0.9%	143,630	0.9%	135,506	0.7%
Sub-total	**4,287,890**	**22.5%**	**4,654,176**	**22.1%**	**4,068,307**	**18.4%**	**2,580,876**	**16.1%**	**4,963,058**	**25.2%**
Total	**19,063,248**	**100%**	**21,024,255**	**100%**	**22,098,076**	**100%**	**15,994,807**	**100%**	**19,678,155**	**100%**

Note: Figures are subject to rounding adjustments.

Comparison between the years ended 31 December 2016 and 2017

The Group's total revenue increased by approximately 10.3% from HK$19,063.2 million for the year ended 31 December 2016 to HK$21,024.3 million for the year ended 31 December 2017, which was due to the increase in the sales of IT consumer products, IT corporate products and others.

IT consumer products: revenue increased by approximately 10.3% from HK$9,803.3 million for the year ended 31 December 2016 to HK$10,809.3 million for the year ended 31 December 2017, which was mainly due to the increase in the sales of laptops as the Group expanded its laptop product portfolio to include new models of laptops of Brand A introduced by Supplier Group A. The revenue generated from the sales of personal computers for the year ended 31 December 2017 increased by 9.1% as compared to the year ended 31 December 2016, while the revenue generated from the sales of new models of laptops contributed to approximately 7.4% in the revenue generated from the sales of personal computers for the year ended 31 December 2017.

IT corporate products: revenue increased by approximately 11.8% from HK$4,972.0 million for the year ended 31 December 2016 to HK$5,560.7 million for the year ended 31 December 2017, which was mainly due to the increase in the sales of PC servers and storage products as the Group gained distributorship from a new supplier, an US-based multinational technology company listed on the New York Stock Exchange in 1986 and ranked first as the provider of business software in the world, for distributing its storage products. Benefiting from the gain of distributorship from the new supplier, the revenue generated from the sales of storage products for the year ended 31 December 2017 increased by 17.1% as compared to the year ended 31 December 2016, while the revenue generated from the sales of storage products of the new supplier contributed to approximately 9.8% in the revenue generated from the sales of storage products for the year ended 31 December 2017.

Others: revenue increased by approximately 8.5% from HK$4,287.9 million for the year ended 31 December 2016 to HK$4,654.2 million for the year ended 31 December 2017, which was mainly due to the increase in the sales of smartphones as the Group began to sell new models of the smartphones of Brand B introduced by Supplier D. The revenue generated from the sales of smartphones for the year ended 31 December 2017 increased by 11.1% as compared to the year ended 31 December 2016, while the revenue generated from the sales of new models of smartphones contributed to approximately 27.3% in the revenue generated from the sales of smartphones for the year ended 31 December 2017.

Comparison between the years ended 31 December 2017 and 2018

The Group's total revenue increased by approximately 5.1% from HK$21,024.3 million for the year ended 31 December 2017 to HK$22,098.1 million for the year ended 31 December 2018, which was due to the increase in the sales of IT consumer products and IT corporate products.

IT consumer products: revenue increased by approximately 2.3% from HK$10,809.3 million for the year ended 31 December 2017 to HK$11,053.2 million for the year ended 31 December 2018, which was mainly due to the increase in the sales of digital products and IT accessories as the Group began to distribute keyboards and mice from a new supplier, which is a famous gaming related company listed on the Main Board of the Stock Exchange in 2017, and as a result of the increase in the sales of cameras, which is manufactured by a leading photographic and information technology company listed on the Tokyo Stock Exchange in 1949. The revenue generated from the sales of digital products and IT accessories for the year ended 31 December 2018 increased by 29.7% as compared to the year ended 31 December 2017, while the revenue generated from the sales of cameras contributed to approximately 12.6% in the revenue generated from the sales of digital products and IT accessories for the year ended 31 December 2018.

IT corporate products: revenue increased by approximately 25.5% from HK$5,560.7 million for the year ended 31 December 2017 to HK$6,976.6 million for the year ended 31 December 2018, which was mainly due to the increase in the sales of storage products and network products as a result of increase in the general market demand and the increase of number of sub-distributors distributing IT corporate products. According to CIC, the market of storage products and network products increased by 24.1% and 14.3% respectively in terms of sales value in the PRC in 2018 due to the needs of digital transformation in various industries especially in the finance, internet and telecommunications sectors. Digital transformation relies on investment in IT corporate products such as intelligent hardware, network products, servers, and storage products that are used to digitalise information, transmit data, store data, analyse data and ultimately to achieve business improvement. Benefiting from the growth of the market, the revenue generated from the sales of storage products and network products for the year ended 31 December 2018 increased by 32.9% and 20.5% respectively as compared to the year ended 31 December 2017, while the revenue generated from the storage products introduced by the Group in 2017 contributed to approximately 24.7% in the revenue generated from the sales of storage products for the year ended 31 December 2018.

Others: revenue decreased by approximately 12.6% from HK$4,654.2 million for the year ended 31 December 2017 to HK$4,068.3 million for the year ended 31 December 2018, which was mainly due to the decline in the sales of smartphones as the competition in the smartphone industry in the PRC intensified. The revenue generated from the sales of smartphones for the year ended 31 December 2018 dropped by approximately 13.0% as compared to the year ended 31 December 2017.

Comparison between the nine months ended 30 September 2018 and 2019

The Group's total revenue increased by approximately 23.0% from HK$15,994.8 million for the nine months ended 30 September 2018 to HK$19,678.2 million for the nine months ended 30 September 2019, which was due to the increase in the sales of IT consumer products, IT corporate products and others.

IT consumer products: revenue increased by approximately 6.4% from HK$8,382.0 million for the nine months ended 30 September 2018 to HK$8,918.1 million for the nine months ended 30 September 2019, which was mainly due to the increase in the sales of digital products and IT accessories as the Group expanded its product profile to include new models of audio products, gaming consoles and etc. and as a result of the increase in the market demand for gaming related hardware driven by industrialisation of electronic sports and consumers' demand for upgrading hardware. Gaming related hardware, such as displays, keyboards and mice, recorded significant growth in demand. Benefiting from the increasing market demand, the revenue generated from the sales of digital products and IT accessories for the nine months ended 30 September 2019 increased by 110.7% as compared to the nine months ended 30 September 2018, while the revenue generated from the sales of gaming related hardware contributed to approximately 14.0% in the revenue generated from the sales of digital products and IT accessories for the nine months ended 30 September 2019.

IT corporate products: revenue increased by approximately 15.2% from HK$5,031.9 million for the nine months ended 30 September 2018 to HK$5,797.0 million for the nine months ended 30 September 2019, which was mainly due to the increase in sales of storage products and network products. The sales of storage products in the PRC increased as a result of increase in the demand from the customers in the finance sector following the on-going needs for digital transformation. According to CIC, the market of storage products continued the upward trend in 2019, recording double-digit growth rates in the first half of 2019. The revenue generated from the sales of storage products for the nine months ended 30 September 2019 increased by 21.4% as compared to the nine months ended 30 September 2018 and the revenue generated from the sales of network products for the nine months ended 30 September 2019 increased by 15.0% as compared to the nine months ended 30 September 2018.

Others: revenue increased significantly by approximately 92.3% from HK$2,580.9 million for the nine months ended 30 September 2018 to HK$4,963.1 million for the nine months ended 30 September 2019, which was mainly due to the increase in the sales of smartphones as the Group expanded its online distribution channels to include an additional sub-distributor established by Customer Group G, who operates an e-commerce platform for distributing smartphones. The revenue generated from the sales of smartphones for the nine months ended 30 September 2019 increased by 98.7% as compared to the nine months ended 30 September 2018, while the revenue generated from the sales of smartphones by the new sub-distributor contributed to approximately 53.7% in the revenue generated from the sales of smartphones for the nine months ended 30 September 2019.

Cost of Sales

Comparison between the years ended 31 December 2016 and 2017

The Group's cost of sales increased by approximately 10.6% from HK$18,306.1 million for the year ended 31 December 2016 to HK$20,255.4 million for the year ended 31 December 2017, which was generally in line with the increase in revenue recognised while the slight difference was brought by the increase in sales of products with relatively lower profit margin.

Comparison between the years ended 31 December 2017 and 2018

The Group's cost of sales increased by approximately 5.0% from HK$20,255.4 million for the year ended 31 December 2017 to HK$21,266.7 million for the year ended 31 December 2018, which increase was in line with the increase in revenue recognised.

Comparison between the nine months ended 30 September 2018 and 2019

The Group's cost of sales increased by approximately 23.4% from HK$15,381.3 million for the nine months ended 30 September 2018 to HK$18,982.7 million for the nine months ended 30 September 2019, which increase was generally in line with the increase in revenue recognised while the slight difference was brought by the increase in sales of products with relatively lower profit margin.

Gross profit and gross profit margin

The following table sets forth the Group's gross profit and gross profit margin for the years/periods indicated:

	For the year ended 31 December			For the nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	(Unaudited)
Gross profit					
IT Consumer products	307,003	322,980	338,893	262,419	293,940
IT Corporate products	381,371	417,251	486,560	338,706	361,671
Others	68,756	28,618	5,942	12,381	39,859
Total	**757,130**	**768,849**	**831,395**	**613,506**	**695,470**
Gross profit margin					
IT Consumer products	3.1%	3.0%	3.1%	3.1%	3.3%
IT Corporate products	7.7%	7.5%	7.0%	6.7%	6.2%
Others	1.6%	0.6%	0.1%	0.5%	0.8%
Overall	**4.0%**	**3.7%**	**3.8%**	**3.8%**	**3.5%**

During the Track Record Period, the Group is not aware of any material fluctuation in purchases costs. For illustration purposes only, set out below a sensitivity analysis of the profit before tax indicated with reference to the fluctuation of gross profit margin during the Track Record Period. The following table demonstrates the impact of the hypothetical increase/decrease in gross profit margin on the profit before tax, while all other factors remain unchanged:

	Changes in gross profit margin		
	+/- 0.1%	**+/- 0.3%**	**+/- 0.5%**
	HK$'000	*HK$'000*	*HK$'000*
Increase/decrease in profit before tax			
For the year ended 31 December 2016	+/- 19,063	+/- 57,190	+/- 95,316
For the year ended 31 December 2017	+/- 21,024	+/- 63,073	+/- 105,121
For the year ended 31 December 2018	+/- 22,098	+/- 66,294	+/- 110,490
For the nine months ended 30 September 2019	+/- 19,678	+/- 59,034	+/- 98,391

Comparison between the years ended 31 December 2016 and 2017

The Group's gross profit increased by approximately 1.5% from HK$757.1 million for the year ended 31 December 2016 to HK$768.8 million for the year ended 31 December 2017, which was mainly due to the increase in revenue and cost of sales during the periods as discussed above.

The Group's overall gross profit margin was 3.7% for the year ended 31 December 2017, representing a decrease of approximately 0.3% as compared with the year ended 31 December 2016, which was mainly due to the increase in sales of products with relatively lower profit margin.

The Group's gross profit margin of IT consumer products decreased by 0.1% from 3.1% for the year ended 31 December 2016 to 3.0% for the year ended 31 December 2017, which was generally stable. The gross profit margin of IT corporate products decreased by 0.2% from 7.7% for the year ended 31 December 2016 to 7.5% for the year ended 31 December 2017, which was mainly due to the low profit margin of the newly introduced storage products, for which the revenue generated from the sales of such storage products contributes 3.8% of the revenue generated from the sales of IT corporate products for the year ended 31 December 2017. The gross profit margin of others decreased by 1.0% from 1.6% for the year ended 31 December 2016 to 0.6% for the year ended 31 December 2017, which was mainly due to the decrease in sales of LBS products, which has a relatively high profit margin. The revenue contributed by the sales of LBS products decreased by approximately 75.5% from HK$214.9 million for the year ended 31 December 2016 to HK$52.6 million for the year ended 31 December 2017.

Comparison between the years ended 31 December 2017 and 2018

The Group's gross profit increased by approximately 8.1% from HK$768.8 million for the year ended 31 December 2017 to HK$831.4 million for the year ended 31 December 2018, which was mainly due to the increase in revenue and cost of sales during the periods as discussed above.

The Group's overall gross profit margin remained relatively stable at 3.8% for the year ended 31 December 2018.

The Group's gross profit margin of IT consumer products increased by 0.1% from 3.0% for the year ended 31 December 2017 to 3.1% for the year ended 31 December 2018, which was generally stable. The gross profit margin of IT corporate products decreased by 0.5% from 7.5% for the year ended 31 December 2017 to 7.0% for the year ended 31 December 2018, which was mainly due to the low profit margin of the storage products introduced in 2017, for which the revenue generated from the sales of such storage products contributes 10.0% of the revenue generated from the sales of IT corporate products for the year ended 31 December 2018. The gross profit margin of others decreased by 0.5% from 0.6% for the year ended 31 December 2017 to 0.1% for the year ended 31 December 2018, which was mainly due to the clearance of inventories of LBS products with revenue amounted to approximately HK$22.7 million caused by the discontinuance of cooperation with certain LBS products' customers, which resulted in a loss.

Comparison between the nine months ended 30 September 2018 and 2019

The Group's gross profit increased by approximately 13.4% from HK$613.5 million for the nine months ended 30 September 2018 to HK$695.5 million for the nine months ended 30 September 2019, which was mainly due to the increase in revenue and cost of sales during the periods as discussed above.

The Group's overall gross profit margin was 3.5% for the nine months ended 30 September 2019, representing a decrease of approximately 0.3% as compared with the nine months ended 30 September 2018, which was mainly due to the increase in sales of products with relatively lower profit margin.

The Group's gross profit margin of IT consumer products increased by 0.2% from 3.1% for the six months ended 30 September 2018 to 3.3% for the nine months ended 30 September 2019, which was generally stable. The gross profit margin of IT corporate products decreased by 0.5% from 6.7% for the nine months ended 30 September 2018 to 6.2% for the nine months ended 30 September 2019, which was mainly due to the increase in sales of a low profit margin storage product. The gross profit margin of others increased by 0.3% from 0.5% for the nine months ended 30 September 2018 to 0.8% for the nine months ended 30 September 2019, which was mainly due to the expansion of distribution to an e-commerce platform which offers higher profit margin on the sales of smartphones. The revenue contributed by the sales of smartphones to the newly expanded e-commerce platform amounted to approximately HK$2,584.3 million for the nine months ended 30 September 2019.

Other income

The following table sets forth a breakdown of the Group's other income for the years/periods indicated:

		For the year ended 31 December			For the nine months ended 30 September	
		2016	**2017**	**2018**	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	(Unaudited)
Bank interest income		2,513	5,310	6,669	1,562	10,445
Government grants	*1*	23,845	17,597	27,155	22,830	19,794
Waiver of customer deposits	*2*	–	2,450	1,028	24	261
Waiver of trade payables	*3*	–	–	5,890	–	1,579
Compensation income	*4*	–	–	2,873	2,912	–
Investment income	*5*	–	–	1,559	627	2,334
Others	*6*	2,094	1,743	1,092	(665)	1,207
Total		**28,452**	**27,100**	**46,266**	**27,290**	**35,620**

Notes:

(1) Government grants were offered based on criteria, which differ each year, the following table set forth details of major government grants received by the Group during the Track Record Period:

a. A city administration committee and the people's government of a district offered reward to the Group as certain subsidiaries of the Group recorded tax expenses exceeding certain amount.

b. A national commission offered grant for the Group's project in relation to development and implementation of in-car BeiDou Navigation Satellite System intelligent terminal and information services platform.

c. A national development funding institute offered grant for the Group's project in relation to the development and implementation of in-car data and information services platform.

d. A provincial committee offered grant for the Group's project in relation to development and implementation of senior care intelligent terminal.

(2) Waiver of customer deposits was recognised when a customer cease to cooperate with the Group and/or purchase products from the Group. The customer may waive the repayment of certain deposits held by the Group.

(3) Waiver of trade payables was recognised when certain payments were deemed waived by suppliers. Since 2018, the Group reassesses its long due trade payables and determines part of such trade payables deemed waived by suppliers. To constitute such wavier, the Group considers certain basis and criteria, including but not limited to, the aging of trade payables over three years and the communication failure between the Group and relevant suppliers. According to Article 188 of the General Provisions of the Civil Law of the PRC, the limitation of action for applying to the people's courts for protection of civil rights is three years. Except where the law provides otherwise, follow those provisions. The Group confirmed that relevant trade payables have passed the three years' limitation of action for applying for protection of civil rights. Further prolongation and suspension of the three years limitation does not exist. The Group has not been intentionally delaying any payments to the suppliers and is of the view that the relevant trade payables are unlikely to be enforceable. In general, the Group has not continued to purchase from suppliers who deemed waived the Group's trade payables. Some of the Group's trade payables aged over three years may not be deemed waived when other arrangements and/or prolonged credit periods were agreed by both the Group and the suppliers.

(4) Compensation income was an one-off compensation paid by a third party logistic provider for the product damage caused during delivery.

(5) Investment income was mainly generated from investments in structured bank deposits and foreign exchange contracts.

(6) Others was penalties paid by customers for breach of contracts and fluctuations of fair value of foreign exchange contracts.

Comparison between the years ended 31 December 2016 and 2017

The Group's other income decreased by approximately 4.9% from HK$28.5 million for the year ended 31 December 2016 to HK$27.1 million for the year ended 31 December 2017, which was mainly due to the decrease in government grants received, offset by the increase in bank interest income and waiver of customer deposits.

Comparison between the years ended 31 December 2017 and 2018

The Group's other income increased by approximately 70.8% from HK$27.1 million for the year ended 31 December 2017 to HK$46.3 million for the year ended 31 December 2018, which was mainly due to the increase in government grants received, bank interest income, compensation income paid by a third party logistic provider for the product damage caused during delivery, waiver of trade payables and investment income, offset by the decrease in waiver of customer deposits.

Comparison between the nine months ended 30 September 2018 and 2019

The Group's other income increased by approximately 30.5% from HK$27.3 million for the nine months ended 30 September 2018 to HK$35.6 million for the nine months ended 30 September 2019, which was mainly due to the increase in bank interest income and investment income.

Distribution and selling expenses

The following table sets forth a breakdown of the Group's distribution and selling expenses for the years/periods indicated:

		For the year ended 31 December						For the nine months ended 30 September			
		2016		2017		2018		2018		2019	
	Notes	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*
								(Unaudited)		(Unaudited)	
Salary and benefits	*1*	181,624	63.8%	176,273	61.7%	191,888	62.8%	112,372	57.8%	134,250	61.1%
Travelling, communication and entertainment expenses		29,236	10.3%	31,988	11.2%	34,287	11.2%	22,436	11.5%	21,509	9.8%
Storage and logistic expenses	*2*	68,218	24.0%	69,367	24.3%	64,108	20.9%	48,141	24.8%	42,780	19.5%
Miscellaneous	*3*	5,546	1.9%	7,866	2.8%	15,725	5.1%	11,488	5.9%	21,059	9.6%
Total		**284,624**	**100%**	**285,494**	**100%**	**306,008**	**100%**	**194,437**	**100%**	**219,598**	**100%**

Notes:

(1) Salary and benefits include labour cost, labour bonus, salaries, bonus and allowances for sales and marketing staff.

(2) Storage and logistic expenses include storage expenses, transportation expenses and insurance expenses.

(3) Miscellaneous expenses include marketing expenses, depreciation, certification fee and others.

Comparison between the years ended 31 December 2016 and 2017

The distribution and selling expenses increased by approximately 0.3% from HK$284.6 million for the year ended 31 December 2016 to HK$285.5 million for the year ended 31 December 2017, which was mainly due to the increase in travelling, communication and entertainment expenses and storage and logistic expenses, offset by the decrease in salary and benefits expenses.

Comparison between the years ended 31 December 2017 and 2018

The distribution and selling expenses increased by approximately 7.2% from HK$285.5 million for the year ended 31 December 2017 to HK$306.0 million for the year ended 31 December 2018, which was mainly due to the increase in salary and benefits as a result of increase of bonuses, and travelling, communication and entertainment expenses, offset by the decrease in storage and logistic expenses.

Comparison between the nine months ended 30 September 2018 and 2019

The distribution and selling expenses increased by approximately 12.9% from HK$194.4 million for the nine months ended 30 September 2018 to HK$219.6 million for the nine months ended 30 September 2019, which was mainly due to the increase in expenses paid in salary and benefits as a result of increase of bonuses, salary and social insurance, offset by the decrease in storage and logistic expenses and travelling, communication and entertainment expenses.

Research and development expenses

The following table sets forth the Group's major research and development projects during the Track Record Period:

Details of the project	Project start date	Launch date
Development of in-car data collection and remote vehicle control intelligent terminal *(Note 1)*	December 2015	December 2018
Development and production of in-car data collection and network connection intelligent terminal *(Note 1)*	April 2016	October 2018
Development and production of in-car entertainment intelligent terminal *(Note 1)*	June 2016	October 2018
Setting up of online distribution platform *(Note 2)*	July 2016	October 2017
Development and production of integrated services intelligent terminal *(Note 3)*	May 2018	August 2018
Development of the Platform	May 2018	September 2019

Notes:

1. In-car intelligent terminal: Due to the introduction of in-car intelligent elements, the Group was requested by certain customers to develop and produce in-car intelligent terminals. These terminals were installed in various models of vehicles to support certain functions including but not limited to connection to network, data and information collection and exchange, long distance remote control towards the vehicle and support for in-car entertainment systems.

2. Online distribution platform: The Group develops and introduces online distribution platform for customers to order products from the Group by e-orders instead of the traditional paper orders. The platform provides an efficient and secured experience to the customers while enabling the Group to manage orders electronically.

3. Integrated services intelligent terminal: Due to the aging population in China and introduction of certain national policies, the Group was requested by a customer to develop and produce an integrated services intelligent terminal for the elderlies. Users of the terminals can enable location services, communication and emergency services and receive all kinds of elderly care and services information with the help of the integrated services intelligent terminal.

During the Track Record Period, the research and development expenses amounted to HK$14.3 million, HK$41.9 million, HK$38.7 million and HK$9.7 million, respectively. Out of the total research and development costs, nil, HK$33.0 million, HK$12.7 million and HK$4.4 million, respectively, was capitalised as intangible assets.

The Group entered into a technology development agreement with an independent technology company for the development of the Platform with a research and development fee amounted to RMB2.0 million. Such technology development company was responsible to design and set up relevant system of the Platform, the system shall support both computer access and smartphone access and shall incorporate functions as stipulated in the agreement, while the Group owns the intellectual property of the Platform. The Group's Platform was launched in September 2019, for details, please refer to the section headed "Recent Business Development" in this announcement. Save for the above disclosed, the Group did not collaborate with any third-party research institutions for the Group's research and development projects during the Track Record Period.

Comparison between the years ended 31 December 2016 and 2017

The research and development expenses decreased by approximately 38.5% from HK$14.3 million for the year ended 31 December 2016 to HK$8.8 million for the year ended 31 December 2017, which was mainly due to the capitalisation of certain research and development costs.

Comparison between the years ended 31 December 2017 and 2018

The research and development expenses increased by approximately 195.5% from HK$8.8 million for the year ended 31 December 2017 to HK$26.0 million for the year ended 31 December 2018, which mainly due to the increase in engagement in research and development projects and the written off of product under development amounted to approximately HK$7.5 million due to the discontinuance of a product line of LBS product and thus the relevant research and development project was suspended.

Comparison between the nine months ended 30 September 2018 and 2019

The research and development expenses decreased by approximately 77.6% from HK$23.7 million for the nine months ended 30 September 2018 to HK$5.3 million for the nine months ended 30 September 2019, which was mainly due to the decrease in research and development projects engaged.

Administrative expenses

The following table sets forth a breakdown of the Group's administrative expenses for the years/periods indicated:

		For the year ended 31 December						For the nine months ended 30 September			
		2016		2017		2018		2018		2019	
	Notes	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*
								(Unaudited)		(Unaudited)	
Salary and benefits	*1*	54,594	47.6%	58,477	50.4%	65,011	52.6%	45,909	56.6%	60,397	52.0%
Travelling, communication and entertainment expenses		5,710	5.0%	6,729	5.8%	4,516	3.7%	1,485	1.9%	1,695	1.5%
Rental and related expenses		15,034	13.1%	13,392	11.6%	12,731	10.3%	9,500	11.7%	8,608	7.4%
Depreciation		4,349	3.8%	4,001	3.4%	5,122	4.2%	3,355	4.1%	5,158	4.4%
Tax and duty		17,966	15.6%	18,867	16.2%	18,672	15.1%	14,750	18.2%	16,519	14.2%
Auditors' remuneration		2,166	1.9%	2,819	2.4%	2,300	1.9%	–	0.0%	–	0.0%
General office expenses		1,794	1.6%	1,642	1.4%	2,731	2.2%	1,678	2.1%	2,607	2.3%
Miscellaneous	*2*	13,066	11.4%	10,264	8.8%	12,402	10.0%	4,418	5.4%	13,109	11.3%
Professional fees incurred for the application of the Transfer of Listing		–	0.0%	–	0.0%	–	0.0%	–	0.0%	8,010	6.9%
Total		114,679	100%	116,191	100%	123,485	100%	81,095	100%	116,103	100%

Notes:

(1) Salary and benefits include labour cost, labour bonus, salaries, bonus and allowances for the administrative staff.

(2) Miscellaneous expenses consist of bank charges, legal and professional fee and others.

Comparison between the years ended 31 December 2016 and 2017

The administrative expenses increased by approximately 1.3% from HK$114.7 million for the year ended 31 December 2016 to HK$116.2 million for the year ended 31 December 2017, which was mainly due to the increase in salary and benefits paid to staff and travelling, communication and entertainment expenses.

Comparison between the years ended 31 December 2017 and 2018

The administrative expenses increased by approximately 6.3% from HK$116.2 million for the year ended 31 December 2017 to HK$123.5 million for the year ended 31 December 2018, which was mainly due to the increase in salary and benefits paid to staff.

Comparison between the nine months ended 30 September 2018 and 2019

The administrative expenses increased by approximately 43.2% from HK$81.1 million for the nine months ended 30 September 2018 to HK$116.1 million for the nine months ended 30 September 2019, which was mainly due to the increase in salary and benefits paid to staff and professional fees incurred for the application for the Transfer of Listing.

Finance costs

The following table sets forth the Group's finance costs for the years/periods indicated:

	For the year ended 31 December			**For the nine months ended 30 September**	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	(Unaudited)
Interest on:					
Bank and other borrowings	16,603	17,978	28,258	18,496	34,878
Discounted bills with recourse	18,269	15,781	19,678	12,895	25,197
Guarantee fee	6,145	6,465	6,075	4,507	4,255
Total	**41,017**	**40,224**	**54,011**	**35,898**	**64,330**

Comparison between the years ended 31 December 2016 and 2017

The finance cost decreased by approximately 2.0% from HK$41.0 million for the year ended 31 December 2016 to HK$40.2 million for the year ended 31 December 2017, which was mainly due to the decrease in interest expense on discounted bills with recourse offset by the increase in interest expense on bank and other borrowings.

Comparison between the years ended 31 December 2017 and 2018

The finance cost increased by approximately 34.3% from HK$40.2 million for the year ended 31 December 2017 to HK$54.0 million for the year ended 31 December 2018, which was mainly due to the increase in interest expense on bank and other borrowings as the interest rates raised and interest expense on discounted bills with recourse.

Comparison between the nine months ended 30 September 2018 and 2019

The finance cost increased by approximately 79.2% from HK$35.9 million for the nine months ended 30 September 2018 to HK$64.3 million for the nine months ended 30 September 2019, which was mainly due to the increase in interest expense on bank and other borrowings and discounted bills with recourse.

Income tax expenses

The following table sets forth the Group's income tax expenses for the years/periods indicated:

	For the year ended 31 December			For the nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	(Unaudited)
Current tax on:					
Hong Kong Profits Tax					
Provision for the year/period	623	–	4,118	4,371	–
(Over) under-provision in prior years	(20)	–	869	–	–
	603	–	4,987	4,371	–
PRC Enterprise Income Tax ("**EIT**")					
Provision for the year/period	84,674	86,521	85,798	71,305	84,785
(Over) under-provision in prior years	125	(2,961)	(2,784)	3,565	(4,609)
	84,799	83,560	83,014	74,870	80,176
Total	85,402	83,560	88,001	79,241	80,176
Effective tax rate	27.5%	25.5%	24.6%	27.1%	25.7%

Comparison between the years ended 31 December 2016 and 2017

The income tax expense decreased by approximately 2.1% from HK$85.4 million for the year ended 31 December 2016 to HK$83.6 million for the year ended 31 December 2017, and the effective tax rate decreased by approximately 2.0% from 27.5% for the year ended 31 December 2016 to 25.5% for the year ended 31 December 2017, which was mainly due to over-provision for EIT in prior years, offset by the increase in provision for EIT.

Comparison between the years ended 31 December 2017 and 2018

The income tax expense increased by approximately 5.3% from HK$83.6 million for the year ended 31 December 2017 to HK$88.0 million for the year ended 31 December 2018, which was mainly due to the increase in provision for Hong Kong profits tax. The effective tax rate remained relatively stable of 24.6% for the year ended 31 December 2018.

Comparison between the nine months ended 30 September 2018 and 2019

The income tax expense increased by approximately 1.2% from HK$79.2 million for the nine months ended 30 September 2018 to HK$80.2 million for the nine months ended 30 September 2019, and the effective tax rate decreased by approximately 1.4% from 27.1% for the nine months ended 30 September 2018 to 25.7% for the nine months ended 30 September 2019, which was mainly due to the increase in over-provision of EIT in prior years, offset by the increase in provision for EIT.

Profit for the year/period

As a result of the foregoing, the Group's profit for the year attributable to owners of the Company increased by approximately 5.0% from HK$232.8 million for the year ended 31 December 2016 to HK$244.5 million for the year ended 31 December 2017 and increased by approximately 10.5% to HK$270.2 million for the year ended 31 December 2018.

For the nine months ended 30 September 2019, the Group's profit for the period attributable to owners of the Company increased by approximately 8.3% from HK$213.5 million for the nine months ended 30 September 2018 to HK$231.3 million for the nine months ended 30 September 2019.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth the Group's balance sheet as of the dates indicated:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)
Non-current assets				
Plant and equipment	30,350	29,255	23,809	21,102
Intangible assets	–	34,515	35,903	33,074
Financial asset at fair value through profit or loss	–	–	31,386	30,488
Available-for-sale investment	9,223	21,384	–	–
Right-of-use assets	–	–	–	4,602
	39,573	85,154	91,098	89,266
Current assets				
Inventories	1,318,904	1,976,801	2,337,668	1,961,676
Trade and bills receivables	1,400,826	1,494,684	1,413,953	2,096,793
Bills receivables at fair value through other comprehensive income	–	–	273,218	276,440
Prepayments, deposits and other receivables	51,171	63,006	88,100	114,235
Amounts due from related companies	17,930	7,163	7,543	4,106
Trade deposits paid	675,125	475,190	649,981	514,121
Structured bank deposits	–	–	672,221	97,561
Pledged bank deposits	54,122	130,400	179,107	438,146
Bank balances and cash	253,282	467,245	334,240	599,871
	3,771,360	4,614,489	5,956,031	6,102,949
Current liabilities				
Trade and bills payables	1,607,015	2,043,973	2,807,980	2,709,076
Other payables	238,110	258,734	246,875	234,299
Tax payables	23,830	6,109	22,061	21,419
Borrowings	315,073	459,821	880,466	1,097,517
Amounts due to related companies	13,912	6,778	6,698	34,148
Contract liabilities	–	–	347,231	266,710
Customer deposits	249,524	284,694	–	–
	2,447,464	3,060,109	4,311,311	4,363,169
Net current assets	1,323,896	1,554,380	1,644,720	1,739,780
Total assets less current liabilities	1,363,469	1,639,534	1,735,818	1,829,046

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)
Non-current liability				
Government grants	6,284	3,289	2,577	2,524
Lease liability	–	–	–	122
Net assets	1,357,185	1,636,245	1,733,241	1,826,400
Capital and reserves				
Share capital	36,366	36,366	36,366	36,366
Convertible preference shares	27,897	27,897	27,897	27,897
Reserves	1,292,922	1,571,982	1,668,978	1,762,137
Total equity	**1,357,185**	**1,636,245**	**1,733,241**	**1,826,400**

Plant and equipment

The Group's plant and equipment mainly comprises office equipment, computers, servers, transport equipment, electrical appliances and others, which amounted to HK$30.4 million, HK$29.3 million, HK$23.8 million and HK$21.1 million as at 31 December 2016, 2017 and 2018 and 30 September 2019, respectively. The plant and equipment of the Group decreased by HK$1.1 million from that as at 31 December 2016 to that as at 31 December 2017, further decreased by HK$5.5 million from that as at 31 December 2017 to that as at 31 December 2018 and further decreased by HK$2.7 million from that as at 31 December 2018 to that as at 30 September 2019, which was mainly due to the depreciation of plant and equipment over the period.

Available-for-sale investment and financial asset at fair value through profit or loss

As at 31 December 2016 and 2017, the Group's available-for-sale investment amounted to HK$9.2 million and HK$21.4 million, respectively. Upon adoption of Hong Kong Financial Reporting Standards ("**HKFRS**") 9 since 1 January 2018, the Group's available-for-sale financial assets were reclassified to financial asset at fair value through profit or loss. As a result, (i) the balance amount of available-for-sale financial asset was nil and nil as at 31 December 2018 and 30 September 2019 and (ii) the balance amount of financial asset at fair value through profit or loss amounted to HK$31.4 million and HK$30.5 million as at 31 December 2018 and 30 September 2019, respectively. During the Track Record Period, the Group's available-for-sale investment and financial asset at fair value through profit or loss comprise the unlisted investment in Sichuan Hongyun. In April 2015, Changhong IT Digital entered into contracts with parties which comprise both connected persons and Independent Third Parties to establish Sichuan Hongyun, in which Changhong IT Digital holds 11% of the total partnership interest. The scope of investment of Sichuan Hongyun primarily focuses on enterprises with high growth potential who are engaging in new intellectual technology areas including, among others, the development of smart terminal technology enhancing hardware and software, innovative smart terminal equipment, cloud computing and big data technology. The Group has implemented certain risk management measures including but not limited to review the quarter reports, annual reports of Sichuan Hongyun and valuation reports on the investments made by Sichuan Hongyun periodically.

Investment policy

The principal investment objective of the Group is to seek capital appreciation. The Group's investment are based on the Group's business strategies and development plans which are determined by the Group's management and the Board with reference to the Group's operations and financial conditions.

When an investment opportunity is identified, investment project proposal will be prepared by relevant departments and the finance department. The Audit Committee and the Board will then determine the feasibility and profitability of the proposed investment with reference to the investment project proposal. When an investment is made, the Audit Committee and the Board are responsible to suggest and review risk management measures implemented to the investment.

Inventories

Inventories are products to be sold by the Group. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the carrying amounts of inventories of approximately HK$1,318.9 million, HK$1,976.8 million, HK$2,337.7 million and HK$1,961.7 million, respectively. The inventories of the Group increased by HK$657.9 million from that as at 31 December 2016 to that as at 31 December 2017, further increased by HK$360.9 million from that as at 31 December 2017 to that as at 31 December 2018, which was mainly due to the increase of the inventory of new models of products and new products the Group began to distribute and the inventory level of certain existing products. The increase in inventories was in line with the increase in overall sales of the Group. The inventories of the Group decreased by HK$376.0 million from that as at 31 December 2018 to that as at 30 September 2019, which was mainly due to the decrease in laptop inventories. As at the Latest Practicable Date, 80.5% of the Group's inventories outstanding as at 30 September 2019 has been sold.

The following table sets out the average inventories turnover days for the years/period indicated:

	For the year ended 31 December			Nine months ended 30 September
	2016	2017	2018	2019
Average inventories turnover days	29	29	37	31

There were no significant changes in the Group's inventory turnover days from 2016 to the nine months ended 30 September 2019.

Trade and bills receivables

Trade and bills receivables of the Group are trade receivables for products sold by the Group and the bills received from the customer. The trade and bills receivables increased by HK$93.9 million from that as at 31 December 2016 to that as at 31 December 2017 was mainly due to the changes in credit term and the timing of settlement of relevant trade and bills receivables. The trade and bills receivables increased by HK$192.4 million from that as at 31 December 2017 to that as at 31 December 2018 was mainly due to the timing of settlement of relevant trade and bills receivables. Trade and bills receivables increased by HK$686.1 million from that as at 31 December 2018 to that as at 30 September 2019, which was mainly due to the expansion of the Group's business and the timing of settlement of relevant trade and bills receivables. As at the Latest Practicable Date, 91.8% of the Group's trade and bills receivables outstanding as at 30 September 2019 were settled.

The Group normally grant credit terms to its customers ranging from 30 to 180 days. The following table sets out the ageing analysis of the Group's trade and bills receivables based on the invoice date and subsequent settlement as at the Latest Practicable Date, as at the indicated dates:

	As at 31 December			As at 30 September	Subsequent settlement as at the Latest Practicable Date of the trade and bills receivables as at 30 September
	2016	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	753,203	570,609	889,744	1,517,264	1,467,100
31 – 60 days	403,621	608,065	405,360	476,981	443,082
61 – 90 days	93,879	142,067	206,423	143,967	126,435
91 – 180 days	59,860	66,621	120,095	119,948	91,047
181 – 365 days	51,508	56,975	37,513	59,012	42,567
1 to 2 years	23,106	39,011	13,320	38,457	4,575
2 to 3 years	12,627	6,008	5,259	9,838	2,467
Over 3 years	3,022	5,328	9,457	7,766	625
Total	**1,400,826**	**1,494,684**	**1,687,171**	**2,373,233**	**2,177,898**

As at 31 December 2016, 2017 and 2018 and 30 September 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$278.2 million, HK$331.2 million, HK$299.3 million and HK$400.3 million which are past due but not impaired and is not considered as in default as there has not been a significant change in credit quality and the amounts are still considered recoverable.

As at the Latest Practicable Date, among the Group's trade receivables as at 30 September 2019, 10 of which are under disputes with an aggregated amount of approximately HK$37.2 million. Despite repeated settlement requests by the Group, the 10 customers failed to settle relevant payments. To the best knowledge of the Company, they are unable to settle payments to the Group due to their financial situations and/or other business frustrations. The Group then brought relevant disputed cases to the court and the court ordered the seizure of assets of the relevant customers. The Group considered the relevant trade receivables are still recoverable.

The following table sets forth the average Group's trade and bills receivables turnover days for the years/periods indicated:

	For the year ended 31 December			**Nine months ended 30 September**
	2016	**2017**	**2018**	**2019**
Average trade and bills receivables turnover days *(Note 1)*	26	25	26	28
Average trade and bills receivables turnover days *(Note 2)*	26	25	24	24

Notes:

1. Calculated with the inclusion of bills receivables at fair value through other comprehensive income.

2. Calculated without the inclusion of bills receivables at fair value through other comprehensive income.

There were no significant changes in the Group's average trade and bills receivables turnover days from 2016 to the nine months ended 30 September 2019.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables of the Group comprise of tender deposits, other tax receivable, annual listing fee and various professional fees. The prepayments, deposits and other receivables increased by HK$11.8 million from that as at 31 December 2016 to that as at 31 December 2017, further increased by HK$25.1 million from that as at 31 December 2017 to that as at 31 December 2018, and further increased by HK$26.1 million from that as at 31 December 2018 to that as at 30 September 2019, which was mainly due to the increase of deposits.

Trade deposits paid

Trade deposit paid represents the advance made by the Group to suppliers for purchasing products to be sold by the Group. The trade deposit paid decreased by HK$199.9 million from that as at 31 December 2016 to that as at 31 December 2017, increased by HK$174.8 million from that as at 31 December 2017 to that as at 31 December 2018 and decreased by HK$135.9 million from that as at 31 December 2018 to that as at 30 September 2019. The changes were mainly due to the timing of orders placing, payment for orders and receipt of products purchased.

Structured bank deposits

The Group recorded structured bank deposits of HK$672.2 million and HK$97.6 million as at 31 December 2018 and 30 September 2019 respectively, which represent structured product deposits purchased by the Group from a reputable commercial bank in the PRC, with principal guaranteed and floating interest rates. The fair values of the structured bank deposits are based on the redeemable amounts as at the year/period end date. The structured bank deposits decreased by approximately HK$574.6 million due to the withdrawal of structured bank deposits at maturity.

Pledged bank deposits

The Group pledged bank deposits to secure general banking facilities granted to the Group at floating rates. The pledged bank deposits increased by HK$76.3 million from that as at 31 December 2016 to that as at 31 December 2017, increased by HK$48.7 million from that as at 31 December 2017 to that as at 31 December 2018, and further increased by HK$259.0 million from that as at 31 December 2018 to that as at 30 September 2019 was mainly due to the increase in the banking facilities utilised by the Group.

Trade and bills payables

Trade and bills payables represent the Group's trade payable to suppliers and bills payable to banks. The trade and bills payables increased by HK$437.0 million from that as at 31 December 2016 to that as at 31 December 2017, and further increased by HK$764.0 million from that as at 31 December 2017 to that as at 31 December 2018, which was mainly due to the expansion of business operations. Trade and bills payables decreased by HK$98.9 million from that as at 31 December 2018 to that as at 30 September 2019 was mainly due to the seasonality effect as there is a higher demand for the Group's products in the fourth quarter of the year. As at the Latest Practicable Date, 92.5% of the Group's trade and bills payables outstanding as at 30 September 2019 had been settled.

The following table sets out the ageing analysis of the Group's trade and bills payables based on the date of receipt of products, as at the indicated dates:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	1,280,088	1,408,780	2,161,954	1,372,800
31 – 60 days	250,823	444,758	452,173	457,926
61 – 90 days	21,783	60,113	69,695	307,901
90 – 180 days	20,057	64,498	59,938	494,718
181 – 365 days	14,716	49,715	25,086	26,945
1 to 2 years	13,313	6,371	16,456	15,999
2 to 3 years	233	2,657	10,346	12,225
Over 3 years	6,002	7,081	12,332	20,562
Total	**1,607,015**	**2,043,973**	**2,807,980**	**2,709,076**

Trade payables with long aging are mainly due to (i) prolonged account reconciliation process with the suppliers and/or delay in invoices issuance from suppliers; (ii) back-to-back arrangements on certain products as stated in the purchase agreements signed between the Group and the suppliers; and (iii) the end-users request extra time for products inspections. According to CIC, back-to-back arrangements are common practices in the IT product distribution industry in China that the suppliers provide incentives to the distributors to distribute their products by reducing obligations and risks of the distributors. Pursuant to the purchase agreements signed between the Group and the suppliers, the Group only needs to settle the trade payables with the suppliers after the sub-distributors settle the same with the Group ("**Back-to-Back Term**"). As confirmed by our PRC legal advisor, the Back-to-Back Term is not in breach of any laws, rules and regulations in the PRC. During the Track Record Period, the Group is not aware of any penalty imposed or termination of distribution agreements caused by the Back-to-Back Term and the Group also confirms that the delayed payments will not lead to penalties or early termination of its distribution agreements. Save for the back-to-back arrangements, in general, the Group has settled the trade payables within the credit terms agreed with the suppliers and has no intention to delay payments to the suppliers.

The following table sets forth the Group's average trade and bills payables turnover days for the years/ periods indicated:

	For the year ended 31 December			Nine months ended 30 September
	2016	2017	2018	2019
Average trade and bills payables turnover days	35	32	41	39

There were no significant changes in the Group's average trade and bills payables turnover days from 2016 to the nine months ended 30 September 2019.

Other payables

Other payables of the Group comprises accruals, provision for social insurance and housing provident fund, other tax payables, salaries payables, interest payables, government grants and other payables. Other payable increased by HK$20.6 million from that as at 31 December 2016 to that as at 31 December 2017 was mainly due to increase in salaries payables and interest payables. Other payable decreased by HK$11.9 million from that as at 31 December 2017 to that as at 31 December 2018 was mainly due to the decrease in other tax payables. Other payables further decreased by HK$12.6 million from that as at 31 December 2018 to that as at 30 September 2019, which was mainly due to the decrease in salaries payables related to payoff of 2018 year-end bonus.

Borrowings

The Group's borrowings represent the total loans borrowed from various commercial banks and a related company. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the balance of the Group's borrowing from various commercial banks were HK$315.1 million, HK$412.0 million, HK$880.5 million and HK$1,097.5 million, respectively and from a related company were nil, HK$47.9 million, nil and nil, respectively. Most of borrowings were usually repayable within one year. Most of the Group's borrowings were denominated in RMB. The continuous increase in borrowings made by the Group was to finance expansion of business operations. The balance of the Group's borrowings from various commercial banks as at 30 September 2019 bore interest ranging from 2.3% to 5.0% per annum.

Customer deposits and Contract liabilities

The Group's customer deposits represent the payments received in advance from customers for the sale of products and/or services. Upon adoption of HKFRS 15, an opening adjustment was made in 2018 to reclassify customer deposits received from customers in relation to the sale of products and/or services from "customer deposits" to "contract liabilities". A contract liability represents the Group's obligation to provide products or services to a customer for which the Group has received consideration from the customer.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the balance of customer deposits/ contract liabilities were HK$249.5 million, HK$284.7 million, HK$347.2 million and HK$266.7 million, respectively. The changes in customer deposits/contract liabilities was mainly due to the increase of sales of IT corporate products and timing of delivery of products and/or services to the customers.

CONTINGENT LIABILITIES

As at 31 December 2016, 2017 and 2018 and 30 September 2019 and the Latest Practicable Date, the Group did not have any material contingent liabilities.

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary uses of cash are to satisfy its working capital and capital expenditure needs. During the Track Record Period, the Group's uses of cash have mainly been financed through a combination of cash inflows from its operating activities and bank borrowings. As at 30 September 2019, the Group had cash and cash equivalents of approximately HK$599.9 million. The Group regularly monitors its liquidity requirements to ensure that it maintains sufficient cash resources for its working capital and capital expenditure needs.

The following table is a condensed summary statement of cash flows for the periods indicated:

	For the year ended 31 December			Nine months ended 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Operating cash flows before movements in working capital	342,329	370,631	394,016	362,733
Changes in working capital	(666,458)	(1,235,300)	(779,644)	(1,430,328)
Tax paid	(67,828)	(105,861)	(71,258)	(80,260)
Net cash used in operating activities	(391,957)	(970,530)	(456,886)	(1,147,855)
Net cash from (used in) investing activities	42,644	(116,957)	(770,150)	307,971
Net cash from financing activities	465,039	1,279,034	1,109,862	1,105,515
Net increase (decrease) in cash and cash equivalents	115,726	191,547	(117,174)	265,631
Cash and cash equivalents at beginning of the period	151,661	253,282	467,245	334,240
Cash and cash equivalents at end of the period	253,282	467,245	334,240	599,871

Net cash used in operating activities

The net operating cash outflow of the Group for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019 was primarily due to that the Group accepts bank acceptance bills from customers in lieu of cash payments, when such bank acceptance bills were discounted, the monies received by the Group will be counted as net cash from financing activities instead of net cash from operating activities, which amounted to HK$744.5 million, HK$1,254.7 million, HK$771.0 million and HK$998.0 million during the Track Record Period, respectively. The net operating cash outflow of the Group for the nine months ended 30 September 2019 has significantly increased due to the timing of settlement of trade and bills receivables by the Group's customers. According to CIC, bank acceptance bills have become one of the commonly used corporate settlement methods in the PRC, and it is the industry norm for IT distributors to accept bank acceptance bills from customers as a substitute of cash payments. To improve the operating cash position, the Group may consider, including but not limited to, reallocation of available resources within the Group and discounting bank acceptance bills to maintain sufficient cash flow for the operation of the Group.

Net cash from (used in) investing activities

The net investing cash inflow of the Group for the year ended 31 December 2016 was primarily due to the decrease of pledged bank deposits. The net investing cash outflow of the Group for the year ended 31 December 2017 was primarily due to the increase in pledged bank deposits. The net investing cash outflow of the Group for the years ended 31 December 2018 was primarily due to the increase in pledged bank deposits and structured deposit, respectively. The net investing cash inflow of the Group for the nine months ended 30 September 2019 was primarily due to the withdrawal of certain structured deposits at maturity.

Net cash from financing activities

During the Track Record Period, advances on discounted bills was recorded at HK$744.5 million, HK$1,254.7 million, HK$771.0 million and HK$998.0 million respectively. As mentioned above, the Group accepts bank acceptance bills from customers in lieu of cash payments, with reference to the Group's cash flow needs for operating activities, the Group may discount certain bank acceptance bills which are yet to mature to banks for raising of cash. During the Track Record Period and up to the Latest Practicable Date, none of the discounted bills held by the Group was dishonoured. Principal terms of the discounted bills are set forth below:

Issuing body:	Major banks in China
Discounted rate:	During the Track Record Period, the discounted rate ranges from 2.9% to 7.0% per annum.
Rights and obligations:	The Group is required to provide a true and effective bank acceptance bill, in order to exchange discounted bill with the issuing bank. The Group may be liable for the payment of the bank acceptance bill if such bill is dishonoured.
Security:	The Group does not provide any additional security, except for the relevant bank acceptance bills, for the discounted bills.

Cash flow management and associated risk

The Group's operation department will report to the Group's capital management department for the invoices and amounts settled by the customers and the payment schedule of the Group to the suppliers in the near future periodically. The Group's capital management department will then arrange financing activities, if needed, with reference to the Group's financial needs. During the Track Record Period, 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.

Despite of the full recourse arrangement, the bills receivables would be settled by respective issuing banks upon maturity. In the opinion of the Directors, 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 period are as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Settlement of trade and other payables	20,698	135,808	181,480	233,889
Discounted bills for raising of cash	121,187	274,380	168,282	146,289
Outstanding endorsed and discounted bills receivables with recourse	141,885	410,188	349,762	380,178

MISAPPROPRIATION OF CERTAIN ASSETS OF CHOD

As disclosed in the announcements of the Company dated 19 June 2015, 20 July 2015 and 19 October 2015, the Former Employee misappropriated certain assets of CHOD. The Group established the Independent Committee to investigate the circumstances and implications of the Incident and the Independent Committee appointed the Independent Forensic Accountant to perform the Independent Review.

During the Independent Review, the Independent Forensic Accountant identified that the Former Employee used the name of one of CHOD's customers (the "**CHOD Customer**"), who had pre-agreed credit term of 30 days with CHOD, for arranging shipments of products. The shipments which alleged to be made to CHOD Customer were mostly made to other customers unknown to CHOD (the "**Unknown Customers**") whom the Former Employee then requested to settle the relevant purchasing orders by depositing cash in the bank account designated by the Former Employee. As a result, the Former Employee was able to possess the payments made by the Unknown Customers for up to 30 days. The Former Employee alleged that he had utilised the payments made by the Unknown Customers for his private investment purpose.

Impact on the Group's financial information

Upon the completion of the Independent Review, the Group consulted with its Predecessor Auditors on the impact to the financial statements of the Group. It was further disclosed in the announcement of the Company dated 19 October 2015, the audit committee of the Company was of the view that the Incident does not have a material impact in any financial statements of the Group for the prior years of the Incident and the Board was of the view that the Incident has no material impact to the daily operation of the principal business of the Group, and the operation of the Group (excluding CHOD) remains unaffected by the Incident.

Internal control measures

The Group has always striven to avoid all kinds of false and unauthorised sales. To verify purchase orders and sales efficiently, the Group introduced the use of digital certificates for sub-distributors who entered into cooperation agreements with the Group and sub-distributors who have not been granted with credit period in December 2014. A digital certificate is an electronic file issued and digitally signed by a certification authority that vouches for the identity of the certificate holder. It provides a means of authentication for conducting online transactions. The Group believes that the use of digital certificates can effectively reduce expenses and time needed on verification of the identity of the sub-distributors when they enter into transactions and agreements with the Group and false/unauthorised sales led by fabricated chops can be effectively avoided.

Besides the introduction of digital certificate, the Group continues to maintain strict and efficient internal control while assessing the sales and orders made by the customers of the Group even if the customers do not use the digital certificate technologies. After such customer submits a sales agreement and/or purchase order to the Group, the sales order will be generated in the Group's system and filed to business management specialist, who are responsible to verify the accuracy of the order before further processing. The verification procedures undertaken by the business management specialist include but not limited to verify the authorised signature and company chop of the customer and compare the details of the sales order in the Group's system and the details of the sales agreement and/or purchase order.

The Group maintains good communication with the customers and undergoes accounts reconciliation with the customers periodically.

View of our Directors and the Sole Sponsor

Taken into account that (i) the Internal Control Advisor has been appointed by the Group to conduct the Internal Control Review in August 2015, and is of the view that save for some minor improvements as suggested in relation to certain procedural matters of the Group which have been made by the Group, there are no major internal control deficiency being identified; (ii) our Group has implemented internal control measures described above to avoid recurrence of the Incident; and (iii) another internal control advisor has been appointed by the Group to conduct an internal control review in July 2019, and noted no material internal control deficiency upon the closing review, our Directors consider, and the Sole Sponsor concurs that, the Group's internal control measures are adequate and sufficient and could effectively ensure a proper internal control system of our Group and prevent the recurrence of the Incident.

Qualified Opinion

As a result of the Incident and as disclosed in the annual report 2015 of the Company, the Predecessor Auditors have issued a qualified opinion on the Group's consolidated financial statements for the year ended 31 December 2015, which was mainly due to incomplete books and records of CHOD. The Predecessor Auditors were unable to obtain sufficient supporting documentation and explanations to carry out audit procedures regarding CHOD to satisfy them as to whether the loss for the year from discontinued operation of HK$67.0 million for the year ended 31 December 2015, assets classified as discontinued operation of HK$2.2 million and liabilities associated with assets classified as discontinued operation of HK$14.8 million as at 31 December 2015 were fairly stated. It was then disclosed in the announcement of the Company dated 14 December 2016, the Group entered into the share transfer agreement to dispose the entire equity interest of CHOD to an Independent Third Party, which was completed on 21 December 2016. Subsequent to the abovementioned disposal, the Auditors have issued a qualified opinion on the Group's consolidated financial statements for the year ended 31 December 2016, which was mainly due to that the Auditors were unable to obtain sufficient appropriate audit evidence about the gain on disposal of a subsidiary of HK$7.5 million and the profit for the year from discontinued operation of HK$0.5 million for the year ended 31 December 2016 included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 and the related disclosures. It was further disclosed in the annual report 2017 of the Company and the announcement of the Company dated 27 April 2018, the Auditors have issued a qualified opinion due to the qualification on the financial information for the year ended 31 December 2016, being the comparative figures for the financial information for the year ended 31 December 2017. Please refer to the annual reports 2015, 2016 and 2017 of the Company and the announcements of the Company dated 14 December 2016 and 27 April 2018 for more details. The Auditors subsequently issued unqualified opinion on the Group's consolidated financial statements for the year ended 31 December 2018.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that subsequent to 31 December 2018, being the date to which the latest published and audited consolidated financial information of the Group were made up, and up to the date of this announcement, there has been no material adverse change in the financial or trading position or prospects of the Group and there have been no unfavourable trends or development which may have a material adverse impact on the Group's business and financial performance.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The Company discloses the biographical information of each Director and senior management as follows:

DIRECTORS

Executive Directors

Mr. ZHAO Yong, aged 56, joined the Company as an executive Director and the chairman of the Board in April 2013. He is also the chairman and director of a number of subsidiaries of the Company, namely Changhong IT, Changhong IT Digital, Changhong IT Intelligence and Duolayouhuo. From October 1993 to June 2001, Mr. Zhao worked at Sichuan Changhong Electronics and held various positions at Sichuan Changhong Electronics and its subsidiaries including Sichuan Changhong, where he last served as the vice chairman and information executive president of Sichuan Changhong. From May 2001 to July 2004, he served as the deputy mayor of Mianyang, Sichuan Province, PRC. Since July 2004, Mr. Zhao has been the chairman and director of both Sichuan Changhong Electronics and Sichuan Changhong. 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. Mr. Zhu is also the director and chief executive officer of each of the following subsidiaries of the Company, namely Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information and Duolayouhuo, the chairman of OPCO, the executive director of Changhong (Hong Kong) Enterprises Limited and the director of Sufficient Value Group Limited and Wide Miracle Limited. From August 1984 to May 1992, Mr. Zhu served at Metallurgy Newspaper of Ministry of Metallurgical Industry* (冶金工業部冶金報社) where he last served as the deputy director and editor. From May 1992 to June 2001, Mr. Zhu worked at Peking University Founder Group Co., Ltd.* (北大方正集團有限公司), where he last served as the executive vice chairman as well as director, vice chairman and president of Founder Technology Group Corporation Co., Ltd. (方正科技集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600601) and formerly known as Shanghai Founder Yanzhong Technology Group Inc. (上海方正延中科技集團股份有限公司). Mr. Zhu served as the director and the president of Zarva Technology from July 2001 to June 2005 and the director of Xichang Electric from May 2003 to June 2005. From December 2005 to May 2015, Mr. Zhu served as a director at Sichuan Changhong Electronics. He obtained a Doctoral Degree in Economics in July 2007 from Renmin University and a Bachelor Degree in July 1984 from Northeast University in the PRC and has more than 21 years of experience in IT industry management.

Mr. Zhu served as a director of Sanhe Media (Beijing) Co., Ltd.*（三合傳媒(北京)有限公司）, the business licences of which was revoked on 9 December 2009 due to cessation of business, To the best knowledge of Mr. Zhu, such company was insolvent at the time of revocation due to poor operating performance. Mr. Zhu confirmed that he was not involved in the daily operations of such company and there was no wrongful act on his part that had led to such revocation, nor is he aware of any actual or potential claim that has been or will be made against him as a result of such revocation.

As at the date of this announcement, Mr. Zhu is deemed to be interested in 82,415,762 Shares held by Typical Faith, representing approximately 5.66% of the entire issued share capital of the Company, as Mr. Zhu is the sole shareholder of Typical Faith.

Mr. YANG Jun, aged 49, joined the Company as an executive Director in April 2017. Mr. Yang is primarily responsible for the capital operation of the Group. He is a director of Sichuan Changhong, and is also the duty general manager of Sichuan Changhong Electronics. He serves in various positions within the subsidiaries of Sichuan Changhong Electronics. He is also the director each of the following subsidiaries of Changhong IT, Changhong 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 28 years of experience in corporate investment and corporate governance.

Mr. LUO Yongping, aged 44, joined the Company as an executive Director in December 2018. 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 June 1997 and a master's degree in historical literature from Sichuan University in July 2000 and has over 19 years experience in corporate management.

Independent Non-executive Directors

Mr. Jonathan CHAN Ming Sun, aged 47, joined the Company as an independent non-executive Director in February 2007. Mr. Chan was appointed as the chairman of each of the audit committee and remuneration committee of the Company, and a member of the nomination committee of the Company. He is an investment manager of Sprint Asset Management Limited. He is also acting as the independent non-executive director of each of the following listed companies on the Stock Exchange, namely 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), from 14 November 2014 to 18 July 2017, L&A International Holdings Limited (stock code: 8195), from 25 September 2014 to 3 March 2017, Focus Media Network Limited (currently known as Cornerstone Financial Holdings Limited) (stock code: 8112) from 21 April 2015 to 27 November 2015, and Dining Concepts Holdings Limited (currently known as Life Concepts Holdings Limited) (stock code: 8056) from 14 July 2016 to 12 December 2018. He obtained his Bachelor Degree of Commerce in Accounting and Information System from University of New South Wales, Australia. He is also a fellow member of the Hong Kong Institute of Directors and a member of Hong Kong Institute of Certified Public Accountants and CPA, Australia. He has over 19 years of experience in investment and corporate finance.

Mr. GAO Xudong, aged 54, joined the Company as an independent non-executive Director in May 2019. Mr. Gao was appointed as the member of each of the audit committee and nomination committee of the Company. He has over 28 years of experience in economics and corporate governance research. He has been an independent director of Gridsum Holding Inc. (a company listed on NASDAQ, stock code: GSUM) since 2006. Mr. Gao obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1988, a master's degree in economics from Renmin University of China in 1991, and a doctor's degree in management from Sloan School of Management in Massachusetts Institute of Technology in 2003. Mr. Gao is a vice director of Research Centre for Technological Innovation, Tsinghua University, a chair professor at Schwarzman College, Tsinghua University and a professor at School of Economics and Management, Tsinghua University. He has been a member of the Expert Committee for Telecommunication Economy of the Ministry of Industry and Information Technology since January 2010.

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

Mr. MENG Qingbin, aged 39, joined the Company as an independent non-executive Director in May 2019. Mr. Meng was appointed as the member of each of the audit committee and remuneration committee of the Company. He has over 10 years of experience in investment and financial theory study and practice. Mr. Meng obtained a bachelor's degree in engineering and a bachelor's degree in science from Tianjin University in June 2003, a master's degree in science from Nankai University in June 2006, and a doctor's degree in finance from Nankai University in June 2009. Mr. Meng is a professor and an instructor of doctorate students at the School of Business of Renmin University of China. He serves as independent director of Puhui Wealth Investment Management Co. Ltd. (a company listed on NASDAQ, stock code: PHCF) since September 2017, Bank of Tangshan since April 2018 and China Bohai Bank since July 2018.

A News Release in respect of the Company was published by the Stock Exchange on 27 March 2018. Among others, (i) Mr. Zhao Yong was publicly censured and (ii) Mr. Zhu Jianqiu and Mr. Jonathan Chan Ming Sun were publicly criticised for breach of the GEM Listing Rules and the declaration and undertaking with regard to directors given by them to the Stock Exchange in the form set out in Appendix 6A to the GEM Listing Rules. Details of the above incident are set out in the announcement referred to.

As further stated in the News Release, the Listing Committee of the Stock Exchange directed, among other things, that each of the Relevant Directors should (i) attend the Training provided by the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Directors or other course providers approved by the Listing Department. The Training is to be completed within 90 days from the publication of the News Release; and (ii) provide the Listing Department with the Training provider's written certification of full compliance within two weeks after Training completion. In accordance with such directions, each of the Relevant Directors has completed the Training on 7 June 2018 and the relevant written certificates have been furnished to the Listing Department on 21 June 2018.

In November 2005, Zarva Technology and its directors, including Mr. Zhu Jianqiu were publicly reprimanded by the Shenzhen Stock Exchange for the failure by Zarva Technology to disclose matters including related party transactions, material guarantees and changes in capital raising from 2004 to 2005, as such non-disclosures were in breach of the provisions under the listing rules of the Shenzhen Stock Exchange. Mr. Zhu Jianqiu, as a director of Zarva Technology, failed to ensure that Zarva Technology comply with the disclosure obligations as required under the relevant laws and regulations of the PRC.

In June 2005, Xichang Electric and its directors, including Mr. Zhu Jianqiu were publicly reprimanded by the Shanghai Stock Exchange for Xichang Electric's breach of its disclosure obligations under relevant regulations from 2004 to 2005. Mr. Zhu Jianqiu, as a director of Xichang Electric, failed to ensure that Xichang Electric comply with the disclosure obligations as required under the relevant laws and regulations of the PRC.

In April 2008, certain administrative penalties were imposed on Xichang Electric and its directors, including Mr. Zhu by the China Securities Regulatory Commission (the "**CSRC**") due to the failure by Xichang Electric to disclose guarantee contracts which were material in nature during the period between 2003 to 2005. Such non-disclosures were in breach of the relevant laws and regulations of the PRC. Mr. Zhu, as a director of Xichang Electric failed to ensure that Xichang Electric comply with the disclosure obligations as required under the relevant laws and regulations of the PRC. A fine of RMB30,000 was imposed and a warning was given by the CSRC.

A news release in respect of L & A International Holdings Limited was published by the Stock Exchange on 11 December 2018. Among others, Mr. Jonathan Chan Ming Sun was publicly censured for breach of the Listing Rules and director's undertaking. Details of the above incident are set out in the announcement referred to. As further stated in the news release, the Listing Committee of the Stock Exchange directed, among other things, that Mr. Jonathan Chan Ming Sun should (i) attend the training provided by institutions such as the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Directors or other course providers approved by the Listing Department; and (ii) provide the Listing Department with the training provider's written certification of full compliance within two weeks after training completion. In accordance with the directions, Mr. Jonathan Chan Ming Sun has completed the Training on March 2019 and the relevant written certificate has been furnished to the Listing Department on March 2019.

To the best knowledge of the Company, the above incidents did not involve fraud, dishonesty or corruption of the Relevant Directors. The Directors believe that each of Mr. Zhao Yong, Mr. Zhu Jianqiu and Mr. Jonathan Chan Ming Sun is qualified to act as the Director in compliance with Rules 3.08 and 3.09 of the Main Board Listing Rules.

Save as disclosed herein, to the best of the knowledge, information and belief of the Directors having made all reasonable inquiries, there was no other matter that needed to be brought to the attention of the Shareholders and there was no information relating to the Directors that was required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Main Board Listing Rules as at the Latest Practicable Date. Save as disclosed above, none of the Directors has been a director of other listed entities in the three years immediately preceding the date of this announcement.

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 in July 1991 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 of 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 July 2003 and a master's degree of business administration from the Graduate School of the Chinese Academy of Social Sciences in the PRC in July 2012 and has 14 years of experience in accounting and financial management.

Changes in board composition

Reference is made to the announcements of the Company dated 13 April 2016, 4 May 2017, 28 December 2018, 15 January 2019, 25 March 2019 and 17 May 2019 for details of the changes in the composition of the Board during the Track Record Period.

As disclosed in the relevant announcements, each of the former Directors concerned has confirmed that he/she has no disagreement with the Board and there were no other matters relating to their respective resignation/retirement that need to be brought to the attention of the Shareholders or the Stock Exchange. Save as disclosed therein, there have been no other material changes in the composition of the Board or senior management of the Company, and the businesses of the Group has been managed by a stable management team led by Mr. Zhao Yong (chairman and executive Director of the Company) and Mr. Zhu Jianqiu (executive Director and the president of the Company), who have been principally assisted by the senior management of the Group, during the Track Record Period and up to the date of this announcement and each of the former Directors concerned was not a member of such core management team of the Group. As such, the Directors are of the view that the Group's business had been operated under substantially the same management throughout the Track Record Period, and thus satisfies the requirement under Rule 8.05(1)(b) of the Main Board Listing Rules.

BOARD DIVERSITY

The Company recognises the benefits of having a diversified Board. The Company has adopted a board diversity policy with the aim of achieving an appropriate level of diversity among Board members according to the circumstances of the Group from time to time. In summary, the board diversity policy sets out that when considering the nomination and appointment of a Director, with the assistance of the nomination committee of the Company, the Board would consider a range of diversity of perspectives, including but not limited to the skills, knowledge, professional experience and qualifications, cultural and educational background, age, gender and the potential contributions that the candidate is expected to bring to the Board, in order to better serve the needs and development of the Company. All Board appointments will be based on merits and candidates will be considered against objective criteria, having due regard to the benefits of diversity to the Board.

The Directors have a balanced mix of knowledge, skills and experience, including general management, IT industry management, corporate investment, corporate management corporate finance and legal aspects. They obtained degrees in various majors including engineering, economics, business administration, archival science, accounting and science. The Company has three independent non-executive Directors who have different industry backgrounds, representing more than one-third of the Board members. Furthermore, the Board has a wide range of age, ranging from 39 years old to 57 years old. The Company has taken and will continue to take steps to promote gender diversity at all levels of the Company, including but without limitation at the Board and senior management levels. In particular, the Company has two female members of the senior management, namely Ms. Su Huiqing and Ms. Yang Na, and approximately 39% of its employees are female as at the Latest Practicable Date. The Company had a female Director, Ms. Shi Ping on Board from 2 October 2007 to 31 December 2018. After the resignation of Ms. Shi as executive Director with effect from 31 December 2018, the Board comprises all male Directors. The Company has been actively looking for a suitable female candidate for Board appointment and will take opportunities to increase the proportion of female members over time. Specifically, the Company will use its best efforts to appoint at least one female Director to the Board within three years following the Transfer of Listing. While the Company recognises that the gender diversity of the Board can be improved given its current composition of all male Directors, the Company will continue to apply the principle of appointments based on merits with reference to the board diversity policy.

To develop a pipeline of female senior management and potential successors to the Board, the Company will ensure there is gender diversity when recruiting staff at a mid to senior level. Also, the Company will continue to devote resources in training and to facilitate the promotion of the existing female employees to the senior management or directorship of the Company.

The nomination committee of the Company will continue to review the board diversity policy from time to time to ensure its continued effectiveness and the Company will disclose the policy or a summary thereof in the corporate governance report of the Company on an annual basis.

WAIVER FROM STRICT COMPLIANCE WITH THE MAIN BOARD LISTING RULES

Management Presence in Hong Kong

According to Rule 8.12 of the Main Board Listing Rules, an issuer must have a sufficient management presence in Hong Kong and under normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong.

The Group's core business and operations are primarily located, managed and conducted in the PRC, and the executive Directors of the Company and its members of senior management are based in the PRC. The Company currently does not, and in the foreseeable future will not, have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Main Board Listing Rules. Therefore, the Company have applied to the Stock Exchange for and the Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Main Board Listing Rules on the following conditions:

(1) that the Company has appointed two authorised representatives pursuant to Rule 3.05 of the Main Board Listing Rules, who will act as the principal channel of communication with the Stock Exchange and ensure that the Company will comply with the Main Board Listing Rules at all times. The two authorised representatives appointed are Mr. Zhu Jianqiu, the executive Director and the president of the Company, and Mr. Zhao Qilin, the joint company secretary of the Company. Mr. Zhao Qilin is ordinarily resident in Hong Kong. Although Mr. Zhu Jianqiu resides in the PRC, he possesses valid travel documents and is able to renew such documents when they expire in order to visit Hong Kong. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail (if applicable). Each of the two authorised representatives is authorised to communicate on our behalf with the Stock Exchange;

(2) that each of the authorised representatives has means to contact all the Directors (including the independent non-executive Directors) and all of the senior management team promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. To enhance communication between the Stock Exchange, the authorised representatives and the Directors, the Company will implement a policy that (a) each Director will have to provide his or her mobile telephone number, office telephone number, facsimile number and email address (if applicable) to the authorised representatives; (b) in the event that a Director expects to travel and/or be out of office, he or she will endeavour to provide the telephone number of the place of his or her accommodation to the authorised representatives or maintain an open line of communication via his or her mobile telephone; and (c) each of the Directors and authorised representatives will provide his or her mobile telephone numbers, office telephone numbers, facsimile numbers and email addresses (if applicable) to the Stock Exchange;

(3) that each of the Directors (including the independent non-executive Directors) not being ordinarily resident in Hong Kong has confirmed that he or she possesses or can apply for valid travel documents to visit Hong Kong for business purpose and will be able to come to Hong Kong and meet with the relevant officers of the Stock Exchange within a reasonable period, when required; and

(4) that the Company has appointed Lego Corporate Finance Limited as the compliance advisor, who will continue to act as an additional channel of communication with the Stock Exchange for a period of two years with effect from 27 April 2018. The contact person of the compliance advisor will be fully available to answer enquiries from the Stock Exchange.

Joint Company Secretaries

Pursuant to Rule 8.17 of the Main Board Listing Rules, the Company must appoint a company secretary who satisfies the requirement under Rule 3.28 of the Main Board Listing Rules. According to Rule 3.28 of the Main Board Listing Rules, the Company must appoint as company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Pursuant to Rule 9A.12 of the Main Board Listing Rules and paragraph 15 of Appendix 28 of the Main Board Listing Rules, the Company does not need to comply with a continuing obligation(s) under Chapter 3 of the Main Board Listing Rules provided that (1) the continuing obligation in issue is equivalent or comparable to a continuing obligation under the GEM Listing Rule; (2) the Stock Exchange has previously granted a waiver to the Company in respect of such obligation; and (3) there has been no change in the relevant facts or circumstances. The effect of a waiver granted by the Stock Exchange shall continue for the purpose of the continuing obligation in issue until its original expiry date since grant, notwithstanding the Transfer of Listing.

Reference is made to the change of joint company secretary of the Company on 15 June 2018, in connection with which the Stock Exchange granted a new waiver in relation to the eligibility of Mr. Zhao Qilin as the joint company secretary of the Company. Details are set out in the announcement of the Company dated 15 June 2018.

The Directors consider that the continuing obligation required under Rule 5.14 of the GEM Listing Rules is comparable with that under Rule 3.28 of the Main Board Listing Rules and there has been no change in the relevant facts or circumstances under which the said waiver was granted. Therefore the said waiver shall survive upon the Transfer of Listing and it is not necessary for the Company to seek from the Stock Exchange for another waiver from strict compliance with Rule 8.17 and Rule 3.28 of the Main Board Listing Rules for the purpose of the Transfer of Listing.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Group's internal resources and existing facilities available to the Group, the Group has sufficient working capital for its requirements for at least next 12 months from the date of this announcement.

COMPETING INTERESTS

As at the date of this announcement, none of the Controlling Shareholders or Directors or their respective close associates has any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under Rules 8.10(1) and (2) of the Main Board Listing Rules.

Sichuan Changhong is principally engaged in the business of manufacture and sales of consumer electronics and home appliances, including television, refrigerator, air-conditioner and others, which is different from the Group's focus on the distribution and sales of IT products. During the Track Record Period, the overlapping businesses of the Group and Sichuan Changhong included (i) the trading and sales of electrical appliances and consumer electronic products in non-PRC overseas markets; and (ii) the distribution of smartphones in the PRC.

With respect to (i), since July 2015, the Company has ceased the business segment of trading consumer electronic products after the business discontinuation of CHOD, which was subsequently disposed to an Independent Third Party in December 2016. For the year ended 31 December 2016, only minimal revenue was recorded for such business segment.

With respect to (ii), Sichuan Changhong manufactures and sells the smartphones in the PRC under its own brands to a limited extent, while the smartphones distributed by the Group are supplied by other brands with relatively higher retail price. Pursuant to the deed of non-competition dated 7 December 2012 (the "**Deed of Non-Competition**"), Sichuan Changhong may continue to manufacture and sale the smartphones in the PRC under its own brands and shall procure the smartphones to be distributed be at the unit retail price equal to or below RMB1,500. In addition, after enquiries with Sichuan Changhong, Sichuan Changhong had decided to discontinue the business of sales of smartphones conducted through its subsidiaries in July 2019.

In light of the above, the Directors are of the view that there is a clear business delineation between Sichuan Changhong and the Group.

Moreover, Sichuan Changhong, Sichuan Changhong Electronics and Fit Generation (collectively, the "**Covenantors**") have provided undertaking in favour of the Group in the Deed of Non-Competition to avoid any potential competition. Pursuant to the Deed Non-Competition, each of the Covenantors has undertaken that, among others, it shall not, directly or indirectly (whether as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise) carry on, engage, invest or be interested or otherwise involved in the business of the Group, subject to certain exceptions. Details of the Deed of Non-Competition are disclosed in the paragraphs headed "Non-compete Undertakings" in the circular of the Company dated 12 December 2012.

The Company has adopted various corporate governance measures in relation to the compliance with the Deed of Non-Competition. Among others, the Covenantors will continue to make annual declarations on their compliance with the Deed of Non-Competition, and the independent non-executive Directors will continue to review the compliance with and enforcement of the Deed of Non-Competition, both of which will be disclosed in the annual reports of the Company.

CONTROLLING SHAREHOLDERS

Since the Listing Date, there has been no change in control of the Company and up to the date of this announcement.

Reference is made to the announcement of the Company dated 14 January 2020. On 14 January 2020, Sichuan Changhong entered into sale and purchase agreements respectively with, and completed the disposal of 60,000,000 Shares, representing approximately 4.12% of the entire issued share capital of the Company, to no less than 100 Independent Third Parties. Immediately following the completion of such disposal, Sichuan Changhong is interested in approximately 65.20% of the entire issued share capital of the Company.

As at the date of this announcement, Sichuan Changhong, Changhong Hong Kong and Fit Generation held approximately 2.43%, 1.10% and 61.67% respectively of the entire issued share capital of the Company. Accordingly, Sichuan Changhong is interested in approximately 65.20% of the entire issued share capital of the Company. As at the date of this announcement, Sichuan Changhong Electronics is the single largest shareholder of Sichuan Changhong, which held approximately 23.22% of the entire issued share capital of Sichuan Changhong and has de facto control over the composition of the majority of the board of Sichuan Changhong. Accordingly, Sichuan Changhong Electronics, Sichuan Changhong, Changhong Hong Kong and Fit Generation remain as a group of Controlling Shareholders as at the date of this announcement.

OTHER MATERIAL INFORMATION

Save as disclosed herein, to the best of the knowledge, information and belief of the Directors having made all reasonable inquiries, there was no other material information during the Track Record Period and up to the date of this announcement, including non-compliances, shareholding or management changes, or relevant regulatory or industry developments, that was required to be disclosed pursuant to paragraph 10(5)(d) of Appendix 28 to the Main Board Listing Rules.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for viewing on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.changhongit.com.hk:

(a) the Bye-laws;

(b) the annual report of the Company for the year ended 31 December 2018;

(c) the interim report of the Company for the six months ended 30 June 2019;

(d) the quarterly report of the Company for the nine months ended 30 September 2019;

(e) the circular of the Company dated 30 April 2019 in relation to the discloseable and connected transactions and continuing connected transactions relating to the entry of the VIE Agreements and notice of special general meeting;

(f) the circular of the Company dated 28 March 2019 in relation to the general mandates to issue and repurchase Shares, re-election of Directors, declaration of final dividend and notice of annual general meeting;

(g) the circular of the Company dated 28 March 2018 in relation to the general mandates to issue and buy-back Shares, re-election of Directors, declaration of final dividend and notice of annual general meeting; and

(h) a copy of each of the announcement and other corporate communication made by the Company before the date of this announcement as required under the GEM Listing Rules and the Main Board Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

"Auditors"	Deloitte Touche Tohmatsu
"Board"	the board of Directors
"Bye-laws"	the bye-laws of the Company as amended from time to time
"CAGR"	compound annual growth rate
"Changhong Hong Kong"	Changhong (Hong Kong) Trading Limited (長虹(香港)貿易有限公司), a company incorporated in Hong Kong with limited liability, and a direct wholly-owned subsidiary of Sichuan Changhong and one of the Controlling Shareholders
"Changhong IT"	Changhong IT Information Products Company Limited (四川長虹佳華信息產品有限責任公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Changhong IT Information"	Changhong IT (Hong Kong) Information Products Co., Ltd. (長虹佳華(香港)資訊產品有限公司), a company incorporated in Hong Kong and a direct wholly-owned subsidiary of the Company
"Changhong IT Intelligence"	Beijing Changhong IT Intelligence System Co., Ltd. (北京長虹佳華智能系統有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"China" or "PRC"	The People's Republic of China
"CHOD"	Changhong Overseas Development Limited
"CIC"	China Insights Industry Consultancy Limited, a market research and consulting company
"Company"	Changhong Jiahua Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on GEM (stock code: 8016)
"Convertible Preference Shares"	non-voting irredeemable convertible preference shares of nominal value of HK$0.025 each in the capital of the Company

"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Main Board Listing Rules and the GEM Listing Rules and refers to Sichuan Changhong Electronics, Sichuan Changhong, Changhong Hong Kong and Fit Generation
"COVID-19"	coronavirus disease 2019
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Operational Procedures"	A part of the General Rules of CCASS
"Director(s)"	the director(s) of the Company
"Duolayouhuo"	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), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"ERP"	enterprise resource planning
"Fit Generation"	Fit Generation Holding Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and wholly-owned by Changhong Hong Kong and one of the Controlling Shareholders
"Former Employee"	a former employee of CHOD
"GEM"	GEM of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM as amended, supplemented or otherwise modified from time to time
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Incident"	the Former Employee has misappropriated certain assets of CHOD

"Independent Committee"	Independent Committee comprising all the independent non-executive Directors at the time of the Incident
"Independent Forensic Accountant"	Deloitte & Touche Financial Advisory Services Limited
"Independent Review"	the independent review and/or investigation to circumstances of the Incident performed by the Independent Forensic Accountant
"Independent Third Party(ies)"	party(ies) who are independent of and not connected with the Directors, chief executive or substantial shareholder(s) of the Company or any of its subsidiaries or any of their respective associates as defined under the GEM Listing Rules
"Internal Control Adviser"	an independent certified public accountants
"Internal Control Review"	Internal control review conducted by the Internal Control Adviser to review the Group's operating subsidiaries (excluding CHOD) with respect to their (i) financial reporting and system; (ii) internal control; (iii) revenue and expenses; (iv) products development; (v) human resources; (vi) information technology systems and (vii) asset and inventory management
"IBMS"	intelligent building management systems
"IT"	information technology
"Latest Practicable Date"	2 March 2020, being the latest practicable date prior to the publication of this announcement for the purpose of ascertaining certain information contained in this announcement
"LBS"	location-based service
"Listing Date"	22 January 2013, being the completion date of the listing of the Company on GEM through reverse takeover
"Listing Department"	the Listing Department of the Stock Exchange
"IoT"	internet of things
"Main Board"	the securities market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange in parallel with GEM, and for the avoidance of doubt, it does not include GEM for the purpose hereof

"Main Board Listing Rules"	the Rules Governing the Listing of Securities on the Main Board as amended, supplemented or otherwise modified from time to time
"NASDAQ"	National Association of Securities Dealers Automated Quotations System
"News Release"	A news release in respect of the Company published by the Stock Exchange on 27 March 2018
"OPCO"	Sichuan Changhong Cloud Computing Company Limited* (四川長虹雲計算有限公司), a company established in the PRC with limited liability and wholly owned by Sichuan Changhong Electronics
"Predecessor Auditors"	SHINEWING (HK) CPA Limited
"Relevant Directors"	Mr. Zhao Yong, Mr. Zhu Jianqiu and Mr. Jonathan Chan Ming Sun
"RMB"	Renminbi, the lawful currency of China
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with a nominal value of HK$0.025 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Sichuan Changhong"	Sichuan Changhong Electric Co., Ltd.* (四川長虹電器股份有限公司), a company established in the PRC and listed on the Shanghai Stock Exchange (stock code: 600839.SH) and one of the Controlling Shareholders
"Sichuan Changhong Electronics"	Sichuan Changhong Electronics Holding Group Co., Ltd.* (四川長虹電子控股集團有限公司), a company established in the PRC and wholly-owned by the State-owned Assets Supervision and Administration Commission of the Mianyang city government and one of the Controlling Shareholders
"Sichuan Hongyun"	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)
"Sole Sponsor"	Dongxing Securities (Hong Kong) Company Limited
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Training"	24 hours of training on the GEM Listing Rules compliance, director's duties and corporate governance matters
"Transfer of Listing"	the transfer of the listing of the Shares from GEM to the Main Board
"Track Record Period"	the period comprising the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019
"Typical Faith"	Typical Faith Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and wholly owned by Mr. ZHU Jianqiu, the executive Director
"UC&CC"	unified communication system and contact centre
"US$"	United States Dollars, the lawful currency of the United States of America
"VIE Agreements"	the VIE agreements entered into between WFOE, OPCO and Sichuan Changhong Electronics on 12 April 2019
"WFOE" or "Changhong IT Digital"	Changhong IT Digital Technology Co., Ltd.* (四川長虹佳華數字技術有限公司), a wholly-foreign owned enterprise invested company (外商投資企業再投資企業) established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Xichang Electric"	Sichuan Xichang Electric Power Co. Ltd., a company established in the PRC and listed on the Shanghai Stock Exchange (stock code: 600505.SH). Xichang Electric engages in the business of electric power generation and distribution business
"Zarva Technology"	Zarva Technology (Group) Co. Ltd. (currently known as Guocheng Mining Co. Ltd.), a company established in the PRC listed on the Shenzhen Stock Exchange (stock code: 000688.SZ). Zarva Technology engaged in the distribution of IT products

"%" per cent

* *English name is for identification purpose only*

By Order of the Board
Changhong Jiahua Holdings Limited
Zhao Yong
Chairman and Executive Director

Hong Kong, 9 March 2020

As at the date of this announcement, the executive Directors are Mr. Zhao Yong, Mr. Zhu Jianqiu, Mr. Yang Jun and Mr. Luo Yongping and the independent non-executive Directors are Mr. Jonathan Chan Ming Sun, Mr. Gao Xudong and Mr. Meng Qingbin.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Company Information" page on the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the website of the Company at www.changhongit.com.hk