

长虹佳华
CHANGHONGIT

CHANGHONG JIAHUA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 3991



2021
ANNUAL REPORT

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Corporate Information

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

Corporate Information

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

EXECUTIVE DIRECTORS

Mr. ZHU Jianqiu, aged 59, joined Changhong Jiahua Holdings Limited (the “Company”, and collectively with its subsidiaries, the “Group”) as an executive Director and the president of the Company in April 2013, and was further appointed as the chairman of the Board in April 2021. Mr. Zhu is responsible for strategic development and the overall operation management of the Group. Mr. Zhu is also the chairman and chief executive officer of each of the following subsidiaries of the Company, namely Sichuan Changhong IT Information Products Company Limited (“Changhong IT”), Sichuan Changhong IT Digital Technology Co., Ltd. (“Changhong IT Digital”), Beijing Changhong IT Intelligence System Co., Ltd. (“Changhong IT Intelligence”), Changhong IT (Hong Kong) Information Products Co., Ltd. (“Changhong IT Information”), Sichuan Changhong IT Duolayouhuo ECommerce Co., Ltd. (“Duolayouhuo”), Sichuan Changhong Information Service Co., Ltd. (“Changhong Information Service”) and Beijing Changhong IT Information Technology Co., Ltd. (“Changhong IT Information Technology”), the chairman of Sichuan Changhong Cloud Computing Company Limited* (四川長虹雲計算有限公司, “OPCO”), PT. Changhong Jiahua Information Technology Indonesia (“Changhong Jiahua Indonesia”) and Sichuan Changhong Cloud Service Co., Ltd. (“Changhong Cloud Service”), the executive director of Changhong (Hong Kong) Enterprises Limited, and the director of Sufficient Value Group Limited and Wide Miracle Limited. He obtained a Doctoral Degree in Economics from Renmin University in 2007 and a Bachelor Degree from Northeast University in the PRC in 1984 and has more than 24 years of experience in information technology (“IT”) industry management.

Mr. PAN Xiaoyong, 47, joined the Company as an executive director in April 2021. Mr. Pan is primarily responsible for the technological innovation and capital operation of the Group. He is a director of Sichuan Changhong Electric Co., Limited (“Sichuan Changhong”) (Shanghai Stock Exchange stock code: 600839) and the deputy general manager of Sichuan Changhong Electronics Holding Group Company Limited (“Sichuan Changhong Holding”, and collectively with its subsidiaries, the “Sichuan Changhong Electric Group”), and serves in various positions within the Sichuan Changhong Electronics Group. He is also the director of each of the following subsidiaries of the Company, namely Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Duolayouhuo, Changhong Information Service and Changhong IT Information Technology. He obtained a bachelor’s degree in engineering from Hefei University of Technology in June 1998, a master’s degree in engineering from Hefei University of Technology in June 2000 and a doctor’s degree in engineering from Hefei University of Technology in December 2003. Mr. Pan worked in postdoctoral research in the major of mechanical manufacturing and automation of the Department of precision instruments of Tsinghua University. He is a national leading talent in scientific and technological innovation and a recipient of special government subsidy from the State Council. He has more than 22 years of experience in the field of technological innovation and rich investment experience.

Mr. ZHANG Xiaolong, aged 46, joined the Company as an executive director in April 2021. Mr. Zhang is responsible for the financing of the Group. He is the chief financial officer of Sichuan Changhong. He is also the director of each of the following subsidiaries of the Company, namely Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information, Duolayouhuo, Changhong Information Service and Changhong IT Information Technology. He obtained a bachelor’s degree in accounting from Zhongnan University of Economics and Law in July 1998 and a master’s degree in business administration from the University of Electronic Science and Technology of China in June 2017. He has over 23 years of experience in financial management and corporate finance.

* The English translation is for identification purpose only.

Biographies of Directors and Senior Management

Mr. ZHOU Jiachao, aged 44, joined Company as an executive Director in October 2021. Mr. Zhou is principally responsible for the investment and business merger of the Group. He is the office director and board secretary of Sichuan Provincial Investment Group Co., Ltd. Mr. Zhou obtained a Bachelor's Degree in Law from Sichuan Normal University in July 2002 and a Master's Degree in Philosophy from Sichuan Normal University in June 2006. He has over 11 years experience in financial and economic management and extensive experience in corporate governance.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan CHAN Ming Sun, aged 49, 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 China Dredging Environment Protection Holdings Limited (stock code: 871), Aceso Life Science Group Limited (Former known as Hao Tin Development Group Limited (stock code: 474) and Hao Tian International Construction Investment Group Limited (stock Code: 1341). He was the independent non-executive director of each of the following listed companies on the Stock Exchange, namely Shenyang Public Utility Holdings Company Limited (stock code: 747), from 13 February 2015 to 12 November 2020, and Dining Concepts Holdings Limited (currently known as Life Concepts Holdings Limited) (stock code: 8056) from 14 July 2016 to 12 December 2018, Grand Peace Group Holdings Limited (was delisted on 27 August 2021, stock code: 8108), Up Energy Development Group Limited (was delisted on 5 January 2022, stock code: 307) ^(Note), and Fujian Nuoqi Co., Ltd. (was delisted on 8 February 2021, stock code: 1353). 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 21 years of experience in investment and corporate finance.

Mr. GAO Xudong, aged 56, 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. Mr. Gao obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1988, a master's degree in economics from Renmin University of China in 1991, and a doctor's degree in management from Sloan School of Management in Massachusetts Institute of Technology in 2003. Mr. Gao is a vice director of Research Center for Technological Innovation, Tsinghua University, a chair professor at Schwarzman Scholars, Tsinghua University and a professor at School of Economics and Management, Tsinghua University. He has been a member of the Expert Committee for Telecommunication Economy of the Ministry of Industry and Information Technology since January 2010. He is also acting as a director of Gridsum holding (Beijing) Co., Ltd. (the "Gridsum Holding") and an independent director of Huadian New Energy Group Company Limited. He has been an independent director of Gridsum holding Inc. (a company that is a subsidiary of Gridsum Holdings, was listed on NASDAQ and was delisted on 5 April 2021, stock code: GSUM) from 2006 to 24 March 2021. He has over 31 years of experience in economics and corporate governance research.

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 41, joined the Company as an independent non-executive Director in May 2019. Mr. Meng was appointed as the member of each of the audit committee and remuneration committee of the Company. Mr. Meng obtained a bachelor's degree in engineering and a bachelor's degree in science from Tianjin University in June 2003, a master's degree in science from Nankai University in June 2006, and a doctor's degree in finance from Nankai University in June 2009. Mr. Meng is a professor and an instructor of doctorate students at the School of Business of Renmin University of China. He serves as independent director of Puhui Wealth Investment Management Co. Ltd. (a company listed on NASDAQ, stock code: PHCF) since September 2017, Bank of Tangshan since April 2018, Bohai International Trust Co., Ltd. since July 2018 and Beijing Yonder Environmental Energy Technology Co., Ltd. since August 2020 (a company listed on NEEQ, stock code: 833755). He has over 13 years of experience in investment and financial theory study and practice.

SENIOR MANAGEMENT

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

Ms. SU Huiqing, aged 52, is the director of OPCO, Changhong Jiahua Indonesia and Changhong Cloud Service. Ms. Su is also the vice president of the Company, Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information, Duolayouhuo, Changhong Information Service and Changhong IT Information Technology. Ms. Su is responsible for the management of human resources, operation and administration of the Group. She holds a Bachelor Degree in Automation from Shanghai Jiaotong University and has more than 29 years of experience in business development in the IT industry.

Ms. YANG Na, aged 40, was appointed as the Financial Controller in November 2017. She is currently the financial controller of Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information, Duolayouhuo, OPCO, Changhong Jiahua Indonesia, Changhong Information Service and Changhong IT Information Technology. She obtained a bachelor's degree in management from the Qinhuangdao branch of the Northeastern University in the PRC in 2003 and a master's degree of business administration from the Graduate School of the Chinese Academy of Social Sciences in the PRC in 2012 and has 16 years of experience in accounting and financial management.

Ms. FENG Yongli, aged 51, was appointed as the board secretary of the Company in December 2020. She is currently the special assistant to the president of Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT Information, Duolayouhuo, Changhong Information Service and Changhong IT Information Technology. She obtained a Bachelor Degree of Engineering from Shanghai University in 1992 and a Master Degree of Economics from Renmin University of China in 1998.

Biographies of Directors and Senior Management

COMPANY SECRETARY

Mr. CHENG Ching Kit, was appointed as a joint company secretary of the Company in June 2018 and became the sole company secretary of the Company on 11 December 2020. Mr. Cheng was appointed as the authorised representative for the purpose of Rule 3.05 of the Listing Rules and Part 16 of the Companies Ordinance with effect from 11 December 2020. Mr. Cheng is a senior manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specialising in corporate services and has over 9 years of experience in corporate secretarial field. He is an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. In addition, he holds a Bachelor of Commerce degree in finance from the University of Queensland, Australia.

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

Dear Shareholders,

In 2021, the Coronavirus Disease 2019 epidemic ("COVID-19 epidemic") kept disturbing the global economy. However, the group grasped the market opportunities, strengthened risk control, continued to operate steadily and achieved stable performance.

BUSINESS REVIEW

In 2021, the economic development of world's major economies was gradually returning to the right track. However, the economic recovery process has been hindered due to the continuous recurrence of the COVID-19 pandemic. The global inflation level has remained high, and the global supply chain has encountered difficulties. In the face of a complex and severe international environment and the domestic epidemic outbreak, China has scientifically coordinated epidemic prevention and control and economic and social development, and the national economy has continued to recover and develop, achieving a good start to the "14th Five-Year Plan". In response to multiple challenges such as recurrence of epidemics, industry changes and shortage of supply chain, in 2021, the Group strived to explore and innovate, so as to promote the sustainable and healthy development of the industry and achieve stable performance. At the same time, with the business strategy of "deeply ploughing demands, empowering with intelligence and jointing good partners", the Group gradually improved the planning of mainstream cloud resources, established in-depth cooperation with leading manufacturers, and explored new opportunities and models in newly developed areas such as cloud computing, virtual reality, data intelligence, the Internet of Things and digital energy. The Group constantly deployed new environments to actively promote the strategic transformation to an ICT comprehensive service provider.

In 2021, the Group recorded an income of about HK\$44,558.17 million, up by 10.34% over the same period of the previous fiscal year; gross margin in 2021 was 2.96%, up by about 0.29 percentage point from the same period of the previous fiscal year, mainly due to the change in sales contribution of the product line. The profit attributable to shareholders in 2021 was approximately HK\$413.25 million, up by about 19.64% over the same period of the previous fiscal year and the basic earnings per share was HK\$16.08 cents, up by HK\$2.64 cents from HK\$13.44 cents in the same period of the previous fiscal year.

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

Chairman's Statement

As at 31 December 2021, the turnover and profits of the three operating segments of the Company were analyzed as follows (RMB exchange rate fluctuations may affect the number/percentage of segments):

ICT consumer product distribution business: The business segment continued to strengthen online and offline comprehensive cooperation with core manufacturers and established cooperation models and marketing models to deepen the integration development of online and offline channels; with the continuously improving comprehensive service capability and operational efficiency, the business segment strived for advantageous product lines, seized market opportunities during the special time and overcame the difficulty of insufficient supply, and result in a significant increase in income. The business's turnover increased by 38.00% to HK\$19,670.73 million over the same period of last year, and its profit increased by 22.74% to HK\$324.75 million.

ICT corporate product distribution business: In response to challenges such as changes in the industry structure, the business segment focused on customer needs, stably developed international brand business, actively expanded domestic brand products, strengthened the construction of technical teams, improved technical service levels, and supported government and enterprise customers to achieve digital transformation. The business has achieved positive growth. At the same time, the business continued to promote the construction of system design capabilities and service delivery capabilities of industry solutions including cloud computing, big data and virtual reality, expanded new business and fields, and sought new development with leading manufacturers. The business's turnover increased by 24.92% to HK\$12,520.45 million over the same period of last year, and its profit increased by 10.59% to HK\$375.64 million.

Other businesses: Due to the decline of sales in smartphones, the business's turnover decreased by 23.21% over the same period of last year to HK\$12,366.99 million; however, due to the significant increase in gross profit of ICT service business, the profit from the business has risen by 30.06% to HK\$119.01 million.

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

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

OUTLOOK

Looking forward to 2022, the impact of the global epidemic will continue, the international situation will become more complex and severe, the global economic recovery will face a huge challenge, and the external uncertainty of China's economic development will increase. In 2022, China will face the triple pressure of shrinking demand, supply shock, and weakening expectations. It will further strengthen the support of macroeconomic policy, base itself on the new development stage, accelerate the construction of new development patterns, and strive to keep the economy operating within a reasonable range and promote high-quality development. With the rapid development of digital technology, the digital economy has flourished and has been deeply integrated into all aspects of economic and social development and has become a key driver for stimulating economic growth, alleviating downward pressure on the economy and driving economic recovery. China's "14th Five-Year Plan for Digital Economy Development" establishes development goals. By 2025, China's digital economy will enter a period of comprehensive expansion, and the added value of the core industries of the digital economy will account for 10% of GDP. In 2022, the Group will follow the development trend of the digital economy and take "new cognition, new kinetic energy, and smart partner" as its business policy. In the era of rapid development of digital intelligence, the Group will continue to learn new knowledge, master new technologies, and generate new kinetic energy with new cognition, focus and deepen in key areas of future digital industries such as cloud, network, data, intelligence, virtual reality, etc., unswervingly develop new driving forces, build new capabilities, create unique value, and empower good partners to seize new opportunities and develop new opportunities together, join hands to win new growth and new success in the future, and make greater contributions to shareholders.

ZHU Jianqiu

Chairman

30 March 2022

Management Discussion and Analysis

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2021 was approximately HK\$44,558.17 million (2020: HK\$40,381.30 million), representing an increase of 10.34% as compared with the previous year. This increase was mainly attributable to the growth of ICT consumer products and ICT corporate products sales.
- Profit for the year ended 31 December 2021 was approximately HK\$413.25 million (2020: HK\$345.40 million), representing an increase of 19.64% as compared with the previous year. This increase was mainly attributable to the increase in revenue with gross margin climbing.
- Total comprehensive income for the year ended 31 December 2021 was approximately HK\$500.64 million (2020: HK\$512.18 million). This decrease was mainly attributable to the fluctuations in the Renminbi exchange rate.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2021, the Group's financial and liquidity positions remained healthy and stable. As at 31 December 2021, the aggregate outstanding borrowings of the Group were approximately HK\$1,179.68 million (2020: HK\$2,195.45 million), which were unsecured and interest bearing. The decrease in the Group's borrowings was due to the decrease in demand of payment as compared with the corresponding period of last year. The Group's cash and bank balances amounted to approximately HK\$3,394.84 million (2020: HK\$3,287.36 million), together with trade and bills receivables amounting to approximately HK\$4,444.82 million (2020: HK\$3,528.45 million). For the year ended 31 December 2021, the Group's net current assets amounted to approximately HK\$2,611.74 million (2020: HK\$2,247.13 million) and the Group did not have any charges on its fixed assets (2020: Nil). The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 31 December 2021 was 3.65 times (2020: 3.75 times). The management of the Group is confident that with proper funding arrangements, the Group's financial resources are sufficient to finance its daily operations.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

As at 31 December 2021, the Group did not have any foreign currency investments which have been hedged by currency borrowings and other hedging instruments.

TREASURY POLICY

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

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2021, the total number of the Group's staff was 1,309 (2020: 1,259 staff). For the year ended 31 December 2021, total staff costs (including Directors) amounted to approximately HK\$430.24 million (2020: HK\$319.17 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The remuneration of executive Directors is determined based on the Company's financial position in a fixed sum; whereas the remuneration of independent non-executive Directors is determined with reference to the prevailing market conditions and the workload. The Group provides retirement benefit for its employees in Hong Kong in the form of mandatory provident fund, and pays social pension insurance and housing provident fund for its employees in China in accordance with the local laws and regulations.

During the year ended 31 December 2021, there were no outstanding share options adopted by the Company granted or exercised.

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

CAPITAL STRUCTURE

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

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

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

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

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

Save as disclosed above, the Group did not have any significant investments, acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2021.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

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

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any material contingent liabilities.

EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR

There were no significant events occurred that might affect the Group after 31 December 2021.

Unless otherwise stated, reference of the code provisions made in this corporate governance report in relation to the corporate governance code is referred to the provisions contained in the Appendix 14 to the Listing Rules in force during the year ended 31 December 2021.

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the corporate governance code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which sets out corporate governance principles and code provisions (the "Code Provisions"). Throughout the year ended 31 December 2021, the Company has complied with all the Code Provisions as set out under the CG Code, except the following deviation:

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. As Mr. ZHU Jianqiu serves as both the chairman of the Board and the president with effect from 8 April 2021, such practice deviates from code provision A.2.1 of the CG Code. Although the roles of chairman of the Board and president are performed by the same individual, all material decisions have been made in consultation with members of the Board as well as senior management. The Board has three independent non-executive Directors who offer different independent perspectives. Therefore, the Board is of the view that there is adequate balance of power and safeguards in place.

COMMUNICATION WITH SHAREHOLDERS

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

The Company has established a Shareholders' communication policy and will review it on a regular basis to ensure its effectiveness. To promote effective communication, the Company's website at www.changhongit.com contains up-to-date information on the Company's business development, corporate culture, financial reporting and corporate governance practices and other information which available for public access. The Company published on its own website the procedures for Shareholders to propose candidates for election as Director. Shareholders may send their enquiries requiring the Board's attention to the company secretary of the Company (the "Company Secretary") at the Company's head office address. Questions about the procedures for convening or putting forward proposals at an annual general meeting or special general meeting may also be put to the Company Secretary by the same means. The Board members meet and communicate with Shareholders and investors at annual general meetings and other general meetings. Corporate communications (such as interim and annual reports, notices, circulars and announcements) are sent to Shareholders in a timely manner and are available on the Company's website at www.changhongit.com and the Stock Exchange's website.

SHAREHOLDERS' RIGHTS

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

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

Other than election at annual general meetings, pursuant to bye-law 58 of the Bye-laws, Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, including election of directors, and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists may do so themselves in accordance with the provisions of section 74(3) of the Companies Act 1981 of Bermuda.

BOARD OF DIRECTORS AND MANAGEMENT

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

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

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

Executive Directors

Mr. ZHU Jianqiu (Chairman and President)

Mr. PAN Xiaoyong

Mr. ZHANG Xiaolong

Mr. ZHOU Jiachao

Independent Non-Executive Directors

Mr. Jonathan CHAN Ming Sun

Mr. GAO Xudong

Mr. MENG Qingbin

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

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

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

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

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

BOARD MEETINGS, COMMITTEES MEETINGS AND GENERAL MEETINGS

Board meetings are held at least four times during any given financial year at approximately quarterly intervals. During the year ended 31 December 2021, the Board held six meetings and the details of the attendance of the Directors at the meetings of the Board and the committees and the general meeting were as follows:

| Name of Directors | Annual general meeting | Board meeting | Audit Committee meeting | Nomination Committee meeting | Remuneration Committee meeting |
|---|------------------------|---------------|-------------------------|------------------------------|--------------------------------|
| <i>Executive Directors</i> | | | | | |
| Mr. ZHAO Yong (resigned with effect from 8 April 2021) | N/A | 2/2 | N/A | 2/2 | N/A |
| Mr. ZHU Jianqiu | 1/1 | 6/6 | N/A | 1/1 | 3/3 |
| Mr. YANG Jun (resigned with effect from 8 April 2021) | N/A | 2/2 | N/A | N/A | N/A |
| Mr. PAN Xiaoyong (appointed with effect from 8 April 2021) | 1/1 | 4/4 | N/A | N/A | N/A |
| Mr. ZHANG Xiaolong (appointed with effect from 8 April 2021) | 1/1 | 4/4 | N/A | N/A | N/A |
| Mr. LUO Yongping (resigned with effect from 20 October 2021) | 1/1 | 4/5 | N/A | N/A | N/A |
| Mr. ZHOU Jiachao (appointed with effect from 20 October 2021) | N/A | 1/1 | N/A | N/A | N/A |
| <i>Independent Non-Executive Directors</i> | | | | | |
| Mr. Jonathan CHAN Ming Sun | 1/1 | 6/6 | 2/2 | 3/3 | 3/3 |
| Mr. GAO Xudong | 1/1 | 6/6 | 2/2 | 3/3 | N/A |
| Mr. MENG Qingbin | 1/1 | 6/6 | 2/2 | N/A | 3/3 |

Except for the annual general meeting, the Company did not held any other general meeting during the year ended 31 December 2021.

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

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

In addition to the above formal meetings, the Company also arranged informal meetings with part of the Directors in 2021 to promote Directors to in-depth communicate each other and participate in the Company's business.

TRAINING

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

Pursuant to Code Provision A.6.5 of CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year of 2021, each of the Directors, namely, Mr. ZHU Jianqiu, Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong, Mr. ZHOU Jiachao, Mr. Jonathan CHAN Ming Sun, Mr. GAO Xudong and Mr. MENG Qingbin, had participated in appropriate continuous professional development activities by attending training courses on the topics related to corporate governance and regulations which were provided by a hired law firm or by reading materials relevant to the Company's business or to their duties and responsibilities. Mr. CHENG Ching Kit, the Company Secretary, had taken no less than 15 hours of relevant professional training as required under Rule 3.29 of the Listing Rules during the year ended 31 December 2021.

As part of the continuous professional development programme, the Directors participated in various briefings as arranged and funded by the Company with appropriate emphasis on the roles, functions and duties of directors. This is in addition to Directors' attendance of meetings and review of papers and circulars sent by management. The participation of individual Directors and the Company Secretary in the training programmes held during the year of 2021 is recorded in the table below.

| | Reading Regulatory updates | Training courses provided by hired law firm |
|---|----------------------------------|---|
| <i>Executive Directors</i> | | |
| Mr. ZHAO Yong (resigned with effect from 8 April 2021) | ✓ | ✓ |
| Mr. ZHU Jianqiu | ✓ | ✓ |
| Mr. YANG Jun (resigned with effect from 8 April 2021) | ✓ | ✓ |
| Mr. PAN Xiaoyong (appointed with effect from 8 April 2021) | ✓ | ✓ |
| Mr. ZHANG Xiaolong (appointed with effect from 8 April 2021) | ✓ | ✓ |
| Mr. LUO Yongping (resigned with effect from 20 October 2021) | ✓ | ✓ |
| Mr. ZHOU Jiachao (appointed with effect from 20 October 2021) | ✓ | ✓ |

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

| | Reading Regulatory updates | Training courses provided by hired law firm/ regulatory authorities/ professional associations |
|--------------------------|----------------------------------|---|
| <i>Company Secretary</i> | | |
| Mr. CHENG Ching Kit | ✓ | ✓ |

CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. As Mr. ZHU Jianqiu serves as both the chairman of the Board and the president with effect from 8 April 2021, such practice deviates from code provision A.2.1 of the CG Code. Although the roles of chairman of the Board and president are performed by the same individual, all material decisions have been made in consultation with members of the Board as well as senior management. The Board has three independent non-executive Directors who offer different independent perspectives. Therefore, the Board is of the view that there is adequate balance of power and safeguards in place.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

Membership

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

Responsibilities

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

During the year ended 31 December 2021, the Audit Committee mainly performed the following duties:

- reviewed the Group's unaudited interim results for the six months ended 30 June 2021 and the audited annual results for the year ended 31 December 2020, met with the external auditors to discuss such annual results, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;
- reviewed the continuing connected transactions of the Group;
- reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and
- assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year ended 31 December 2021, the Audit Committee held two meetings and the details of attendance was set out on page 17 of this report. The annual results for the year ended 31 December 2021 had been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

Membership

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

Responsibilities

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

During the year ended 31 December 2021, the Remuneration Committee mainly performed the following duties:

- reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2021.

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

During the year ended 31 December 2021, the Remuneration Committee held three meetings and the details of attendance was set out on page 17 of this report.

NOMINATION COMMITTEE

Membership

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

Nomination Procedure and Selection Criteria

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

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

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

Responsibilities

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

During the year ended 31 December 2021, the Nomination Committee mainly performed the following duties:

- assessed the suitabilities of any candidate as a Director, reviewed and recommended the appointment of any candidate;
- reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and
- reviewed the structure, size and composition of the Board during the year of 2021.

The Board has the authority to determine the appointment while the Nomination Committee acted as advisor. During the year ended 31 December 2021, the Nomination Committee held three meetings and the details of attendance are set out on page 17 of this report.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in Code Provision D.3.1 of the CG Code. During the year ended 31 December 2021, the Board regularly reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and the senior management of the Group, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

REMUNERATION, APPOINTMENT AND ROTATION OF DIRECTORS

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

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

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

COMPANY SECRETARY

The company secretary of the Company is Mr. CHENG Ching Kit ("Mr. Cheng").

Mr. Cheng is a senior manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specialising in corporate services, and assists Ms. Feng Yongli ("Ms. Feng"), who is the board secretary of the Company, in company secretarial affairs, and the primary corporate contact person of Mr. Cheng at the Company is Ms. Feng.

MANAGEMENT AND EMPLOYEES

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

Pursuant to Code Provision B.1.5, the remuneration of the members of the senior management by remuneration band for the year ended 31 December 2021 is set out below:

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

Further particulars of Directors' emoluments and the five highest paid individuals discloseable pursuant to Appendix 16 of the Listing Rules are set out in Note 11 to the consolidated financial statements as set out on pages 113 to 115 of this annual report.

DIVIDEND POLICY

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

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

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

EXTERNAL AUDITOR

The Company engaged Deloitte Touche Tohmatsu (“Deloitte”) as auditor of the Company. During the year ended 31 December 2021, the services provided by Deloitte included the audit of consolidated financial statements of the Group and financial statements of its subsidiaries.

The remuneration of the audit service rendered by Deloitte was mutually agreed in view of the scope of services and amounted to HK\$2,761,265 and the sum for other non-audit and tax services amounted to HK\$31,109 for the year ended 31 December 2021.

Deloitte, as the external auditor of the Company for the year ended 31 December 2020 attended the 2021 annual general meeting of the Company held on 28 May 2021 to respond to any enquiries about the conduct of the audit, the preparation and content of the independent auditor’s report and the auditor’s independence.

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

RISK MANAGEMENT AND INTERNAL CONTROL

The Board conducts regular reviews on the effectiveness of the risk management and internal control systems on at least an annual basis to ensure that the operation of the Company is legal, the assets of the Company are safeguarded and the financial information that the Company relies on for the operation of its business or for the release to the public are accurate and reliable. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The management of the Group is responsible for establishing and maintaining the risk management and internal control systems for financial reporting. The Company has established a stringent internal control system for financial reporting to eliminate the risks of misstatement, omission and fraud in financial reporting. Meanwhile, with reference to external regulatory requirements, the Company’s business development and the internal management procedures, the Company has reviewed the effectiveness of the internal control system for business strategy, finance, operations, marketing, legal compliance and other areas. The Company has established a comprehensive risk management system which integrates internal control and risk management system for the control of business operations with high risks. The Company also conducted assessment on the effectiveness of its internal control and risk management systems for the year ended 31 December 2021. The management of the Group believes that the internal control, risk management and financial reporting systems were effective and adequate and provided reliable financial data in the preparation of financial statements in accordance with generally accepted accounting principles.

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

CONSTITUTIONAL DOCUMENTS

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2021.

CONTINUOUS EVOLVEMENT OF CORPORATE GOVERNANCE

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

CORPORATE MISSION

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

CORPORATE VISION

- To become a remarkable ICT comprehensive service provider under the new era
- To become a remarkable listed company bringing satisfactory returns to the Shareholders
- To become a paradise for the career development of professional managers

CORPORATE CULTURE

- Targets and results oriented: with clearly defined strategic targets, use the targets to be achieved to plan, figure out the strategies, measures and road maps in accomplishing them and then move forward step by step. Achieve targets through scientific and systemic ways of thinking and focus on results accountability.
- Simple and direct communication: efficiency is the principle to follow and achieve targets through focused and efficient communications. Be straight to the point, have clear subjects during communication, be targets and results oriented and focus on facts but not individuals.
- Seek for truth, seek for diversity, explore other kinds of possibility: apply rules that are discovered during exploration process, seek for and apply diversity in rules. Establish new thinking model for Chinese ICT distribution enterprises, boldly explore new directions and endeavor to achieve corporate improvement and industry perfection.

DEVELOPMENT STRATEGY

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

CORPORATE GOVERNANCE

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

Report of the Directors

The Directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

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

RESULTS OF OPERATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 62 of this annual report.

FINANCIAL SUMMARY

The financial summary of the Group between 2017 and 2021 is set out on page 153 to 154 under the section of “Five-year Summary of Financial Information” of this annual report.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2021 and a discussion of the Group’s future business development and a description of principal risks and uncertainties facing the Company are set out in the Chairman’s Statement on pages 8 to 10 of this annual report. An analysis of the Group’s performance during the year ended 31 December 2021 using financial key performance indicators is set out in the Group’s Five-year Financial Summary on pages 153 to 154 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES FACED BY THE GROUP

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

Business Risk

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

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

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

Foreign Currency Risk

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

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

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

- i Use of electricity — The Group leased offices in 25 cities including Mainland China and Hong Kong. In 2021, the electricity consumption is 1,030 million watt-hour, involved 1,061 tons (2020: 907 tons) of carbon emissions. In 2021, the Group's per capita electricity consumption involved 0.81 tons of carbon emissions. Due to the expansion of the group's business scale and the increase of personnel, the consumption increased slightly compared with 2020. (The source of carbon emission conversion factors involved in electricity use is the "China's Regional Grid Infrastructure Emission Factors for 2015" promulgated by the Department of Climate Change, National Development and Reform Commission)
- ii Use of fuel — The Group owns a few vehicles for travel and reception of the executives. In 2021, the fuel usage involved carbon emissions of 7.7 tons (2020: 7.4 tons). In 2021, the Group's the per capita fuel consumption involved 0.0059 tons of carbon emissions, maintaining the same level as last year. (The source of carbon emission conversion factors involved in fuel use is the "2006 IPCC (Intergovernmental Panel on Climate Change) National Greenhouse Gas List Guidelines Catalogue", Vehicle Emission Capabilities: 2.2631 Kg/L)
- iii Use of paper — The use of paper by the Group mainly originates from office consumption. The Group's paper usage was 1.05 million sheets (2020: 1.04 million sheets) in 2021, representing an increase of 0.9% compared with that of last year, which was mainly due to the increase in related business scale in 2021 as the number of business contracts, bidding documents and other documents that need to be printed increased. The Group continues to implement e-contracting to reduce paper usage.
- iv Use of packaging materials — Issues relevant to the use of packaging materials are not applicable to the Group due to the Group's business nature since 2020.

During the year ended 31 December 2021, the Group was subject to various laws and regulations set by the PRC national, provincial and municipal governments relevant to the Group's business operation, including The Company Law of the PRC (《中華人民共和國公司法》), Civil Code of the People's Republic of China (《中華人民共和國民法典》) and Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》). Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year ended 31 December 2021, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS, EMPLOYEES AND OTHER STAKEHOLDERS

The Group believes that maintaining a good relationship with its business partners, customers, suppliers, employees and other stakeholders is important to the Group's business performance and development. Accordingly, the management of the Group has kept good communication, exchanged ideas and shared business updates with the stakeholders when appropriate. The Group also creates a framework for motivating staff and maintaining close relationship with staff. During the year ended 31 December 2021, there were no material and significant disputes between the Group and its customers, suppliers, employees and/or other stakeholders.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2021 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 62 to 64 of this annual report.

The Board recommended the payment of final dividend of HK\$0.05 per share of the Company (the "Share(s)") in respect of the year ended 31 December 2021 (2020: HK\$0.05 per Share), amounting to HK\$128,526,000 (calculated based on 1,454,652,000 ordinary shares in issue and 1,115,868,000 preference shares in issue on 30 March 2022), and there is no arrangement that a Shareholder has waived or agreed to waive any dividend. The final dividend is expected to be paid on Friday, 24 June 2022 to all Shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 8 June 2022 and is subject to approval by the Shareholders at the forthcoming annual general meeting of the Company (the "AGM").

The declared final dividend for the year ended 31 December 2020 of HK\$128,526,000 in total (HK\$0.05 per Share) was paid on 25 June 2021.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The AGM is scheduled to be held on Friday, 27 May 2022. The Company's register of members will be closed from Tuesday, 24 May 2022 to Friday, 27 May 2022, both days inclusive, for the purpose of determining the entitlements of the Shareholders to attend and vote at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 23 May 2022.

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The Company's register of members will be closed from Monday, 6 June 2022 to Wednesday, 8 June 2022, both days inclusive, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend of HK\$0.05 per Share for the year ended 31 December 2021, if approved at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 2 June 2022.

PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, throughout the year ended 31 December 2021 and as at the latest practicable date prior to the issue of this report, the Company maintained a sufficient public float of at least 25% in the number of issued shares of the Company pursuant to Listing Rules.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2021 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company had several reserve accounts available for distribution, in the amount of approximately HK\$562.09 million, which may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 31 December 2021, sales to the Group's five largest customers accounted for approximately 30.66% of the total sales for the year and sales to the largest customer included therein amounted to approximately 17.82%. Purchases from the Group's five largest suppliers accounted for approximately 62.31% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 26.66%.

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

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for the year ended 31 December 2021.

DIRECTORS

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

Executive Directors

Mr. ZHAO Yong (resigned with effect from 8 April 2021) *(Note)*
Mr. ZHU Jianqiu (President, and appointed as Chairman with effect from 8 April 2021)
Mr. YANG Jun (resigned with effect from 8 April 2021) *(Note)*
Mr. PAN Xiaoyong (appointed with effect from 8 April 2021)
Mr. ZHANG Xiaolong (appointed with effect from 8 April 2021)
Mr. LUO Yongping (resigned with effect from 20 October 2021) *(Note)*
Mr. ZHOU Jiachao (appointed with effect from 20 October 2021)

Independent Non-Executive Directors

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

Note:

He resigned as Director due to his other business commitment.

In accordance with bye-laws 83 and 84 of the Bye-laws, Mr. ZHU Jianqiu, Mr. ZHOU Jiachao, and Mr. GAO Xudong will retire at the AGM, and, being eligible, will offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

Except for Mr. YANG Jun (resigned with effect from 8 April 2021), Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong and Mr. LUO Yongping (resigned with effect from 20 October 2021), the Company and each of its Directors (including independent non-executive Directors) has entered into a fixed-term service contract which is renewable automatically per annum. Mr. YANG Jun (resigned with effect from 8 April 2021), Mr. PAN Xiaoyong, Mr. ZHANG Xiaolong, Mr. LUO Yongping (resigned with effect from 20 October 2021) and Mr. ZHOU Jianchao have entered into service contracts with the Company with no fixed term, and are terminable by either party giving not less than one month's written notice or payment in lieu.

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

DONATION

No charitable and other donations was made by the Group during the year ended 31 December 2021 (2020: HK\$500,000).

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2021.

PERMITTED INDEMNITY AND INSURANCE PROVISIONS

The Bye-laws provide that every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty. Such provisions were in force during the financial year ended 31 December 2021 and remained in force as of the date of this report. The Company has also arranged appropriate directors' and officers' liability insurance in respect of legal action against Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2021.

DIRECTORS' INTERESTS TRANSACTIONS, ARRANGEMENTS AND IN CONTRACTS OF SIGNIFICANCE

No Director had a material interest, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year ended 31 December 2021.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES

As at 31 December 2021, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

| Name of Director | Capacity | Number of ordinary shares interested (Note a) | Approximate percentage of interest |
|-----------------------------|--------------------------------------|--|------------------------------------|
| Mr. Zhu Jianqiu ("Mr. Zhu") | Interest in a controlled corporation | 115,165,762 (L) | 7.92% |

Note:

(a) (L) represents long position.

Save as disclosed above, as at 31 December 2021, none of the Directors or chief executives of the Company had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2021 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate. As at the date of this report, the Company has not granted any share options to the Directors.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as the Directors were aware, as at 31 December 2021, the persons or companies (not being a Director or chief executive of the Company) whose interests or short positions in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed or were notified to the Company and the Stock Exchange pursuant to the provisions under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

| Name of substantial shareholders | Capacity | Class of Shares | Number of Shares interested (Note a) | Approximate percentage of interest in relevant class of shares (Note b) |
|--|---|------------------|---|--|
| Sichuan Changhong Electric Co., Limited ("Sichuan Changhong") | Interest of controlled corporation | Ordinary share | 874,650,000 (L) (Note c) | 60.13% |
| | | Preference share | 1,115,868,000 (L) (Note d) | 100.00% |
| Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong") | Interest of controlled corporation and beneficial owner | Ordinary share | 874,650,000 (L) (Note e) | 60.13% |
| | | Preference share | 1,115,868,000 (L) (Note d) | 100.00% |
| Fit Generation Holding Limited ("Fit Generation") | Beneficial owner | Ordinary share | 858,650,000 (L) | 59.03% |
| | | Preference share | 1,115,868,000 (L) | 100.00% |
| Sichuan Chuantou Assets Management Co., Ltd. ("Chuantou Assets Management") (Note f) | Beneficial owner | Ordinary share | 83,009,340 (L) | 5.70% |
| Sichuan Provincial Investment Group Company Limited ("Sichuan Provincial Investment Group") (Note f) | Interest of controlled corporation | Ordinary share | 83,009,340 (L) | 5.70% |

Notes:

- (a) (L) represents long position.
- (b) The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 31 December 2021, which were 1,454,652,000 and 1,115,868,000, respectively.
- (c) Among the 874,650,000 Shares interest held by Sichuan Changhong, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong Hong Kong and 858,650,000 Shares were held through Fit Generation, which is wholly-owned by Changhong Hong Kong. Sichuan Changhong is therefore deemed to be interested in the Shares held by Changhong Hong Kong and Fit Generation for the purpose of the SFO. Sichuan Changhong Holding is the single largest shareholder of Sichuan Changhong, which held approximately 23.22% of the entire issued share capital of Sichuan Changhong and has de facto control over the composition of the majority of the board of Sichuan Changhong.
- (d) 1,115,868,000 preference shares of the Company were held by Fit Generation, which is wholly-owned by Changhong Hong Kong, which is a wholly-owned subsidiary of Sichuan Changhong. Each of Sichuan Changhong and Changhong Hong Kong is therefore deemed to be interested in the preference shares of the Company held by Fit Generation for the purpose of the SFO.
- (e) Among the 874,650,000 Shares interest held by Changhong Hong Kong, 16,000,000 Shares were held directly and 858,650,000 Shares were held through Fit Generation. As Fit Generation is wholly-owned by Changhong Hong Kong, Changhong Hong Kong is deemed to be interested in the Shares held by Fit Generation for the purpose of the SFO.
- (f) Chuantou Assets Management is wholly-owned by Sichuan Provincial Investment Group, which is deemed to be interested in the Shares held by Chuantou Assets Management for the purpose of the SFO.

Save as disclosed above, as at 31 December 2021, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN A COMPETING BUSINESS

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

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

COMPLIANCE OF THE DEED OF NON-COMPETITION

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

The Company has received confirmations from the Covenantors confirming their compliance with the Deed of Non-Competition and agreed to make a declaration on compliance with the Deed of Non-Competition in this Annual Report. The independent non-executive Directors have also reviewed the compliance and enforcement of the Deed of Non-Competition, and are of the view that the Covenantors have abided by the undertakings contained in the Deed of Non-Competition for the year ended 31 December 2021.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Saved as the related party transactions disclosed in Note 36 to the consolidated financial statements, no controlling Shareholder had a material interest, either directly or indirectly, in any contract of significance (whether for the provision of services to the Company or not) to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2021.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' dealings in securities of the Company (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards as set out in the Code of Conduct throughout the year ended 31 December 2021.

CONNECTED TRANSACTIONS

During the year 2021, the following connected transactions were carried out by the Group.

House Leases Agreements

The Group entered into the following leases (collectively the “Leases”): (1) on 5 May 2020 Changhong IT entered into a lease agreement (the “2020 Changhong IT Lease”) with Beijing Changhong Technology Company Limited* (北京長虹科技有限責任公司) (“Beijing Changhong”) in relation to the leasing of certain premises in Beijing, which be used by Changhong IT as its office; and (2) on 30 March 2021, Changhong IT entered into the 2021 Changhong IT Lease with Beijing Changhong in relation to the newly leasing of certain premises in Beijing, which will be used by Changhong IT as its office, to expand the existing leasing of premises. The Leases will be both valid and performed.

Beijing Changhong is owned as to 48.98%, respectively, by Sichuan Changhong, a controlling shareholder of the Company. Hence, Beijing Changhong is an associate of Sichuan Changhong and a connected person of the Company. Accordingly, the entering into of the Leases constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the estimated values of the right-of-use asset to be recognised by the Group under the Leases will be aggregated for the purpose of calculating the percentage ratios. As one or more of the applicable percentage ratios in respect of the estimated value of the right-of-use asset to be recognised by the Group under the Leases in aggregate are more than 0.1% and less than 5%, the entering into of the 2021 Changhong IT Lease is therefore exempt from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules, but is subject to the reporting and announcement requirements. For details of the aforementioned Leases, please refer to the announcements of the Company dated 22 May 2020 and 30 March 2021.

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

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

CONTINUING CONNECTED TRANSACTIONS

During the year 2021, the following continuing connected transactions were carried out by the Group.

(a) Master Supply Agreement

On 17 November 2020, the Company entered into a framework agreement (the “2021 Master Supply Agreement”) with Sichuan Changhong Holding in relation to the supply of ICT products and technical services, including mainly (i) storage products such as storage devices, (ii) servers, (iii) networking products such as switches and routers, (iv) personal computers, and (v) installation and maintenance services for the abovementioned categories of the ICT products to be provided by the Group to the Sichuan Changhong Electric Group (the “ICT Products and Services”) to Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2021 to 31 December 2023 (both days inclusive).

In accordance with the 2021 Master Supply Agreement, the Group and the Sichuan Changhong Electric Group entered into individual orders setting out specific terms of each individual purchase of the ICT Products and Services during the year ended 31 December 2021. Pursuant to the 2021 Master Supply Agreement, (i) the price and terms of the individual orders in respect of the supply of the ICT Products and Services by the Group to the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm’s length basis, on similar basis as the Group transacts business with other independent third party customers and shall be on terms which are no less favourable to the Group than those provided to independent third party customers; and (ii) payment shall be made by the Sichuan Changhong Electric Group, for project business, in accordance with the payment terms under individual order with reference to the timing of the project business; and for any other trading business, within normal credit period upon the date of invoice. For the year ended 31 December 2021, the transaction amount under the 2021 Master Supply Agreement is subject to a cap of RMB200 million (2020: RMB56 million).

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

As Sichuan Changhong Holding owns approximately 23.22% equity interest in Sichuan Changhong, a controlling Shareholder, and has control over Sichuan Changhong, both Sichuan Changhong and Sichuan Changhong Holding are controlling Shareholders and hence Sichuan Changhong Holding is a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2021 Master Supply Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one of the applicable percentage ratios (excluding the profits ratio) under the Listing Rules in respect of the highest annual cap for the transactions contemplated under the 2021 Master Supply Agreement exceeds 5%, the transactions contemplated under the 2021 Master Supply Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

For the year ended 31 December 2021, the sale made under the 2021 Master Supply Agreement amounted to approximately RMB25.23 million (2020: approximately RMB51.04 million) in total.

(b) Master Purchase Agreement

On 17 November 2020, the Company entered into a framework agreement (the “2021 Master Purchase Agreement”) with Sichuan Changhong Holding, in relation to the purchase of products including TV, intelligent devices, software and services (the “Purchase Products”) from the Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2021 to 31 December 2023 (both days inclusive).

In accordance with the 2021 Master Purchase Agreement, the Group and the Sichuan Changhong Electric Group entered into individual orders setting out specific terms of each individual purchase of the Purchase Products during the year ended 31 December 2021. Pursuant to the 2021 Master Purchase Agreement, (i) the price and terms of the individual order in respect of the purchase of the Purchase Products shall be on normal commercial terms, negotiated on an arm’s length basis, on similar basis as the Group transacts business with other independent third party suppliers and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers; and (ii) payment shall be made by the Company, for project business, in accordance with the payment terms under individual order with reference to the timing of the project business; and for any other trading business, within normal credit period upon the date of invoice. For the year ended 31 December 2021, the transactions amount under the 2021 Master Purchase Agreement was subject to a cap of RMB40 million (2020: RMB40 million).

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

As disclosed above, Sichuan Changhong Holding is a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2021 Master Purchase Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As all applicable percentage ratios (excluding the profits ratio) under the Listing Rules in respect of the highest annual cap for the 2021 Master Purchase Agreement exceed 0.1% but all of them are less than 5%, the transactions contemplated under the 2021 Master Purchase Agreement are subject to the reporting, announcement and annual review requirements but exempt from the circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

For the year ended 31 December 2021, the purchase made under the 2021 Master Purchase Agreement amounted to approximately RMB1.85 million (2020: approximately RMB6.45 million) in total.

(c) Financial Services Agreement

On 27 November 2020, Changhong IT entered into a financial services agreement (the “2021 Financial Services Agreement”) with Sichuan Changhong Group Finance Company, Limited (四川長虹集團財務有限公司) (“Changhong Finance”), pursuant to which Changhong Finance agreed to provide financial services including (1) deposit services; (2) loan services; and (3) settlement services (collectively, the “Financial Services”) to Changhong IT.

The 2021 Financial Services Agreement has a fixed term from 1 January 2021 and ending on 31 December 2023 (both dates inclusive). Pursuant to the 2021 Financial Services Agreement, (i) in relation to the deposit services, the interest rate applicable to any deposits made available to Changhong Finance will be determined in the ordinary course of business and shall not be less than (a) the minimum interest rate prescribed by the People’s Bank of China (“PBOC”) at such relevant time, and (b) the interest rate available to Changhong IT from other major commercial banks in the PRC independent to Changhong IT in respect of the same type of deposits; (ii) in relation to the loan services, the interest rate of the loans to be granted by Changhong Finance to Changhong IT will be determined in the ordinary course of business and shall not be higher than (a) the maximum interest rate prescribed by PBOC at such relevant time; and (b) the interest rate charged against Changhong IT by other major commercial banks in the PRC independent to Changhong IT in respect of the same type of loans; and (iii) in relation to the settlement services to Changhong IT, the settlement service fees to be charged by Changhong Finance will be determined in the ordinary course of business and shall not exceed the fees charged by other settlement services providers independent to Changhong IT in respect of the same type of settlement services.

As the deposit interest rates and the lending rates offered by Changhong Finance to Changhong IT would be equal to or more favorable to Changhong IT than those offered by independent commercial banks in the PRC to Changhong IT for comparable deposits or, as the case may be, loans, the 2021 Financial Services Agreement is therefore expected not only to provide Changhong IT with new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. Changhong IT is also expected to be in a better position to manage the security of its funds since it is not considered to be exposed to any significant capital risk. For details of the 2021 Financial Services Agreement, please refer to the announcement of the Company dated 17 November 2020, 7 December 2020 and 31 December 2020 and the circular of the Company dated 11 December 2020.

As at the date of the 2021 Financial Services Agreement, Changhong Finance is owned as to approximately 35.04% by each of Sichuan Changhong and Sichuan Changhong Holding respectively, and approximately 14.96% by each of Changhong Huayi Compressor Co., Ltd. (長虹華意壓縮機股份有限公司, a company established under the laws of the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000404) and is owned as to approximately 30.6% by Sichuan Changhong) and Changhong Meiling Co., Ltd. (長虹美菱股份有限公司, a company established under the laws of the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000521) and is owned as to approximately 23.79% by Sichuan Changhong) respectively. Changhong Finance is an associate of a connected person of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the 2021 Financial Services Agreement also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios under the Listing Rules in respect of the maximum daily outstanding balance of the deposit services under the 2021 Financial Services Agreement exceed 5%, the deposit services under the 2021 Financial Services Agreement are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, the deposits made in Changhong Finance are provision of financial assistance by the Company under Rule 14.04(1)(e) of the Listing Rules. As certain percentage ratios in respect of the placing of deposits in Changhong Finance exceed 25%, such placing of deposits also constitute a major transaction of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The loan services under the 2021 Financial Services Agreement constitute financial assistance provided by a connected person. As such loan services would be provided on normal commercial terms or on terms which shall be more favorable to Changhong IT and would not be secured by the assets of the Group, the loan services under the 2021 Financial Services Agreement are fully exempt from the announcement, reporting, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (excluding the profits ratio) under the Listing Rules in respect of the highest annual cap for the settlement services under the 2021 Financial Services Agreement are less than 5% and the highest annual cap is less than HK\$3,000,000, such settlement services are fully exempt from the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The 2021 Financial Services Agreement and the transactions contemplated thereunder, together with the annual caps (being the maximum daily outstanding balance of deposits to be placed by Changhong IT and its subsidiaries with Changhong Finance, the maximum daily outstanding balance of loans to be granted by Changhong Finance and the maximum service fees for the settlement services to be provided by Changhong Finance under the 2021 Financial Services Agreement), for the three years ending 31 December 2021, 2022 and 2023 were approved by the independent Shareholders at the special general meeting of the Company held on 31 December 2020.

For the year ended 31 December 2021, the annual cap and the actual transaction amounts for the deposit services were as follows:

| | Deposit services — Maximum daily outstanding balance of deposits to be deposited by Changhong IT with Changhong Finance <i>(RMB'000 per day)</i> |
|--|--|
| Annual cap for the year ended 31 December 2021 | 1,500,000 |
| Actual transaction amount for the year ended 31 December 2021 | 694,108 |

(d) The VIE Agreements

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

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

(1) The Exclusive Purchase Right Agreement

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

(2) The Loan Agreement

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

(3) The Equity Pledge Agreement

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

(4) The Exclusive Consultancy and Services Agreement

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

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

(5) The Business Cooperation Agreement

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

(6) Power of Attorney

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

(7) The Intellectual Property Rights Authorisation Agreement

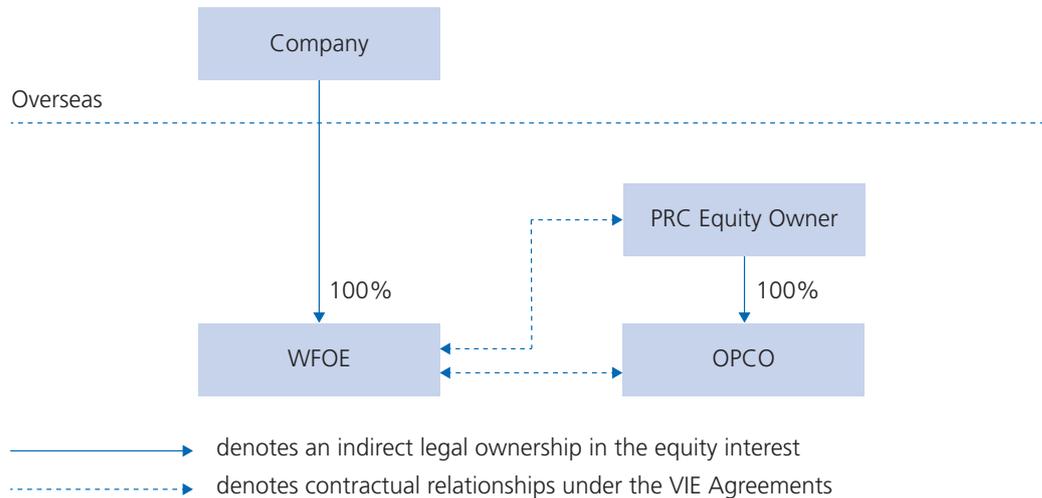
The WFOE agrees to grant to the OPCO the non-exclusive, non-sublicensable, non-transferrable right to use certain intellectual property rights in the PRC in relation to the Platform. The OPCO may only use such intellectual property rights in operating a value added telecommunications business.

(8) The Commitment Letter

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

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

The following diagram sets out the VIE Structure:



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

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

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

* The GEM Listing Rules was applicable to the Company prior to the transfer of listing of the Company from GEM to the Main Board of the Stock Exchange on 18 March 2020 (the "Transfer of Listing"). Immediately after the Transfer of Listing, the Listing Rules shall be applicable to the Company.

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

For the year ended 31 December 2021, WFOE provided a loan in amount of RMB20 million (up to RMB60 million) to Sichuan Changhong Holding in accordance with the loan agreement under the VIE Agreements. The investment amount of the Sichuan Changhong Holding in OPCO was RMB20 million. Sichuan Changhong Holding had pledged all the equity interests in OPCO to WFOE in accordance with the equity pledge agreement. OPCO lost approximately RMB7.02 million in 2021, hence the amount of service fees payable by OPCO to the WFOE under the Exclusive Consultancy and Services Agreement was nil. As at 31 December 2021, OPCO's total assets amounted to approximately RMB6.65 million.

Reasons for Adopting the VIE Structure

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

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

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

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

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

Risk Factors in Relation to the VIE Agreements

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

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

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

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

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

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

The independent non-executive Directors have reviewed the VIE Agreements and confirmed that for the year ended 31 December 2021:

- (i) the transactions carried out during the year have been entered into in accordance with the relevant provisions of the VIE Agreements, have been operated so that the revenue generated by the OPCO Group has been substantially retained by the WFOE;
- (ii) no dividends or other distributions have been made by the OPCO to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and
- (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO Group during the year are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.

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

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

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal or better commercial terms which are not less favorable to the Group than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

Deloitte Touche Tohmatsu, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu will report the conclusion to the board of directors by confirming the matters as stated in Rule 14A.56, where applicable. A copy of the auditor's letter will be provided by the Company to The Stock Exchange of Hong Kong Limited.

RELATED PARTY TRANSACTIONS

All of the related party transactions undertaken during the year ended 31 December 2021 as disclosed in Note 36 to the consolidated financial statements in this annual report fall under the definition of "connected transactions" under the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

AUDITORS

The financial statements of the Group for the year ended 31 December 2021 were audited by Deloitte Touche Tohmatsu who shall retire at the forthcoming AGM and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

ZHU Jianqiu

Chairman and Executive Director

Hong Kong
30 March 2022

Deloitte.

德勤

TO THE SHAREHOLDERS OF CHANGHONG JIAHUA HOLDINGS LIMITED

長虹佳華控股有限公司

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Changhong Jiahua Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 62 to 152, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

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

Independent Auditor's Report

KEY AUDIT MATTERS

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

Key audit matter

How our audit addressed the key audit matter

Valuation of inventories

We identified valuation of the inventories as a key audit matter due to the significance of the amount to the consolidated financial statements and the low gross profit margin of the Group's products. The inventories mainly represent electronic products for which the product life cycle is relatively short and gross profit margin is relatively low. In addition, significant management estimates and judgements are involved in determining the net realisable value of the inventories.

As disclosed in Notes 10 and 21 to the consolidated financial statements, net allowance for inventories of approximately HK\$45,071,000 has been recognised during the year ended 31 December 2021 and the carrying value of inventories was approximately HK\$3,667,994,000 (net of allowance for inventories of approximately HK\$132,533,000) as at 31 December 2021, which represents 29% of the total assets of the Group.

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

Our procedures in relation to the valuation of the inventories included:

- Understanding the management's process to identify obsolete/damaged stocks and calculate the inventory cost and inventory counts that are periodically performed by the management;
- Performing physical observation of the inventories as at year end to identify inventories that may be required to be included in the assessment of the allowance for inventories;
- Testing the cost of inventories, on a sample basis, against source documents;
- Obtaining the inventory aging report to identify long aged inventories and assessing whether allowance for inventories was properly provided for; and
- Comparing the carrying amount of long aged inventories with selling price stated in subsequent sales invoices on a sample basis.

Key audit matter

How our audit addressed the key audit matter

Recoverability of trade receivables

We identified the recoverability of trade receivables as a key audit matter due to the significance of the amount to the consolidated financial statements and the significant judgment involved in determining the provision of expected credit losses.

As disclosed in Notes 10 and 34 to the consolidated financial statements, net impairment loss on trade receivables of approximately HK\$61,955,000 has been recognised during the year ended 31 December 2021 and the carrying amount of the Group's trade receivables was approximately HK\$4,385,787,000 (net of allowance for credit losses of approximately HK\$80,472,000).

The Group has applied the simplified approach to measure the loss allowance at life time expected credit loss. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit loss based on provision matrix. The estimated loss rates are estimated based on historical observed default rates over the expected life of debtors and are adjusted for forward-looking information.

Our procedures in relation to the recoverability of trade receivables included:

- Understanding the management's process to assess the expected credit losses of trade receivables, including the use of provision matrix;
- Evaluating the reasonableness of management's determination of the expected loss rates;
- Assessing the reasonableness of the historical default rates applied in the provision matrix;
- Testing the accuracy of management's calculation of the expected credit losses of trade receivables;
- Obtaining the aging report of trade receivables to trace the amounts stated in aging report, on a sample basis, to the source documents, and
- Testing subsequent settlements of trade receivables, on a sample basis, by inspecting supporting documents in relation to receipts from trade debtors subsequent to the end of the current reporting period.

Independent Auditor's Report

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Independent Auditor's Report

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

The engagement partner on the audit resulting in the independent auditor's report is Yuen Wing Hang.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

| | NOTES | 2021 HK\$'000 | 2020 HK\$'000 |
|---|-------|------------------|------------------|
| Revenue | 5 | 44,558,173 | 40,381,301 |
| Cost of sales | | (43,239,733) | (39,302,538) |
| Gross profit | | 1,318,440 | 1,078,763 |
| Other income | 7 | 67,530 | 68,657 |
| Distribution and selling expenses | | (437,078) | (363,873) |
| Research and development expenses | | (33,404) | (24,557) |
| Administrative expenses | | (169,182) | (180,176) |
| Finance costs | 8 | (175,290) | (144,130) |
| Impairment loss on trade receivables, net | | (61,955) | (19,114) |
| Exchange loss, net | | (2,816) | (93) |
| Profit before tax | | 506,245 | 415,477 |
| Income tax expenses | 9 | (92,998) | (70,079) |
| Profit for the year attributable to the owners of the Company | 10 | 413,247 | 345,398 |
| Other comprehensive income | | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | | |
| Exchange differences arising from translation of consolidated financial statements to presentation currency | | 87,389 | 166,783 |
| Total comprehensive income for the year | | 500,636 | 512,181 |
| Earnings per share | 13 | | |
| Basic and diluted (HK cents) | | 16.08 | 13.44 |

Consolidated Statement of Financial Position

At 31 December 2021

| | NOTES | 2021 HK\$'000 | 2020 HK\$'000 |
|--|-------|-------------------|------------------|
| Non-current assets | | | |
| Plant and equipment | 14 | 5,668 | 5,726 |
| Intangible assets | 15 | 21,661 | 18,484 |
| Right-of-use assets | 16 | 12,524 | 12,599 |
| Financial asset at fair value through profit or loss | 17 | 35,196 | 30,666 |
| | | 75,049 | 67,475 |
| Current assets | | | |
| Inventories | 21 | 3,667,994 | 3,131,603 |
| Trade receivables | 18 | 4,385,787 | 3,110,036 |
| Bills receivables at fair value through other comprehensive income | 19 | 59,030 | 418,414 |
| Tax recoverable | | – | 4,065 |
| Prepayments, deposits and other receivables | 20 | 189,568 | 119,196 |
| Amounts due from related companies | 36(b) | 8,306 | 13,530 |
| Trade deposits paid | | 690,871 | 808,048 |
| Pledged bank deposits | 22 | 2,687,475 | 2,917,765 |
| Bank balances and cash | 22 | 707,365 | 369,591 |
| | | 12,396,396 | 10,892,248 |
| Current liabilities | | | |
| Trade and bills payables | 23 | 7,839,724 | 5,622,316 |
| Other payables | 24 | 445,043 | 331,711 |
| Tax payables | | 12,046 | 26,723 |
| Borrowings | 29 | 1,179,675 | 2,195,451 |
| Amounts due to related companies | 36(b) | 22,585 | 15,878 |
| Contract liabilities | 25 | 276,973 | 444,244 |
| Lease liabilities | 26 | 8,612 | 8,800 |
| | | 9,784,658 | 8,645,123 |
| Net current assets | | 2,611,738 | 2,247,125 |
| Total assets less current liabilities | | 2,686,787 | 2,314,600 |

Consolidated Statement of Financial Position

At 31 December 2021

| | NOTES | 2021 HK\$'000 | 2020 HK\$'000 |
|--------------------------------|-------|------------------|------------------|
| Non-current liabilities | | | |
| Government grants | 31 | 1,341 | 1,766 |
| Lease liabilities | 26 | 5,186 | 4,684 |
| | | 6,527 | 6,450 |
| Net assets | | | |
| | | 2,680,260 | 2,308,150 |
| Capital and reserves | | | |
| Share capital | 27 | 36,366 | 36,366 |
| Convertible preference shares | 27 | 27,897 | 27,897 |
| Reserves | | 2,615,997 | 2,243,887 |
| Total equity | | | |
| | | 2,680,260 | 2,308,150 |

The consolidated financial statements on pages 62 to 152 were approved and authorised for issue by the board of directors on 30 March 2022 and are signed on its behalf by:

Zhu Jianqiu
DIRECTOR

Pan Xiaoyong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

| | Share capital | Convertible preference shares | Statutory reserve | Merger reserve | Translation reserve | Other reserve | Contributed surplus | Retained earnings | Total |
|---|---------------|-------------------------------|----------------------|-----------------------|---------------------|------------------------|-----------------------|-------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 (Note i) | HK\$'000 (Note ii) | HK\$'000 | HK\$'000 (Note iii) | HK\$'000 (Note iv) | HK\$'000 | HK\$'000 |
| At 1 January 2020 | 36,366 | 27,897 | 111,219 | (1,248,106) | (166,357) | (203,432) | 1,760,883 | 1,580,320 | 1,898,790 |
| Profit for the year | - | - | - | - | - | - | - | 345,398 | 345,398 |
| Exchange differences arising from translation of consolidated financial statements to presentation currency | - | - | - | - | 166,783 | - | - | - | 166,783 |
| Total comprehensive income for the year | - | - | - | - | 166,783 | - | - | 345,398 | 512,181 |
| Appropriation to statutory reserve | - | - | 4,219 | - | - | - | - | (4,219) | - |
| Dividends recognised as distribution (Note 12) | - | - | - | - | - | - | (102,821) | - | (102,821) |
| At 31 December 2020 | 36,366 | 27,897 | 115,438 | (1,248,106) | 426 | (203,432) | 1,658,062 | 1,921,499 | 2,308,150 |
| Profit for the year | - | - | - | - | - | - | - | 413,247 | 413,247 |
| Exchange differences arising from translation of consolidated financial statements to presentation currency | - | - | - | - | 87,389 | - | - | - | 87,389 |
| Total comprehensive income for the year | - | - | - | - | 87,389 | - | - | 413,247 | 500,636 |
| Appropriation to statutory reserve | - | - | 5,009 | - | - | - | - | (5,009) | - |
| Dividends recognised as distribution (Note 12) | - | - | - | - | - | - | (128,526) | - | (128,526) |
| At 31 December 2021 | 36,366 | 27,897 | 120,447 | (1,248,106) | 87,815 | (203,432) | 1,529,536 | 2,329,737 | 2,680,260 |

Notes:

- (i) In accordance with the Articles and Association of the People's Republic of China (the "PRC") subsidiaries and the relevant laws and regulations applicable in the PRC, companies established in the PRC are required to appropriate at least 10% of their statutory annual profits after tax determined in accordance with the relevant statutory rules and regulations applicable to enterprises in the PRC to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC companies. The amount of the transfer is subject to the approval of the board of director of the respective PRC companies.
- (ii) The merger reserve represents the difference between the considerations and the assets and liabilities acquired under business combinations under common control.
- (iii) The other reserve represents the difference between the consideration paid and the carrying values of non-controlling interests acquired during the year ended 31 December 2014.
- (iv) On 15 May 2015, a resolution was passed on the annual general meeting to approve the reduction of the amount of approximately HK\$2,095,051,000 standing to the credit of the share premium account of the Company and the transfer of the entire amount to the contributed surplus account of the Company

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

| | 2021 HK\$'000 | 2020 HK\$'000 (Restated) |
|---|--------------------|--------------------------------|
| OPERATING ACTIVITIES | | |
| Profit before tax | 506,245 | 415,477 |
| Adjustments for: | | |
| Depreciation for plant and equipment | 2,112 | 3,859 |
| Depreciation of right-of-use assets | 10,064 | 8,133 |
| Amortisation of intangible assets | 4,402 | 4,177 |
| Finance costs | 175,290 | 144,130 |
| Bank interest income | (31,453) | (23,187) |
| Gain on fair value changes of financial assets at fair value through profit or loss | (3,578) | (19,435) |
| Government grants | (31,984) | (25,062) |
| Allowance for inventories, net | 45,071 | 46,870 |
| Impairment loss on trade receivables, net | 61,955 | 19,114 |
| Written off of software | – | 7,070 |
| Written off of plant and equipment | – | 9,989 |
| Operating cash flows before movements in working capital | 738,124 | 591,135 |
| Increase in inventories | (483,177) | (879,937) |
| Increase in trade receivables | (1,229,701) | (860,395) |
| Increase in bills receivables at fair value through other comprehensive income | (4,607,772) | (4,974,016) |
| Decrease in trade deposits paid | 138,726 | 11,930 |
| Increase in prepayments, deposits and other receivables | (65,954) | (18,151) |
| Decrease in amounts due from related parties | 5,542 | 6,423 |
| Increase in amounts due to related parties | 6,152 | 8,571 |
| Increase in trade and bills payables | 6,112,817 | 3,889,787 |
| increase in other payables | 103,750 | 5,646 |
| (Decrease) increase in contract liabilities | (177,761) | 7,524 |
| Receipt of government grants | 31,513 | 24,613 |
| Cash from (used in) operations | 572,259 | (2,186,870) |
| The PRC tax paid | (110,377) | (57,358) |
| HK profits tax paid | – | (6,444) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 461,882 | (2,250,672) |

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

| | 2021 HK\$'000 | 2020 HK\$'000 (Restated) |
|--|--------------------|--------------------------------|
| INVESTING ACTIVITIES | | |
| Placement of pledged bank deposits | (4,255,082) | (4,052,892) |
| Addition of intangible assets | (7,057) | (145) |
| Distribution from financial asset at fair value through profit or loss | – | 21,338 |
| Purchase of plant and equipment | (1,832) | (855) |
| Withdrawal of pledged bank deposits | 4,566,640 | 2,320,412 |
| Interest received | 31,453 | 23,187 |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | 334,122 | (1,688,955) |
| FINANCING ACTIVITIES | | |
| Repayments of borrowings | (4,987,260) | (3,742,635) |
| Dividend paid | (128,526) | (101,406) |
| Interest paid | (94,159) | (74,385) |
| Repayment of lease liabilities | (10,799) | (7,877) |
| Guarantee fee paid | (6,029) | (10,333) |
| Interest on lease liabilities paid | (534) | (536) |
| New borrowings raised | 3,930,684 | 4,829,719 |
| Advances on discounted bills, net of interest | 3,924,801 | 3,533,340 |
| Decrease in trade and bills payables under supply chain financing arrangements | (3,104,916) | (855,143) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (476,738) | 3,570,744 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 319,266 | (368,883) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 369,591 | 711,740 |
| Effect of foreign exchange rate changes | 18,508 | 26,734 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash | 707,365 | 369,591 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

1. GENERAL INFORMATION

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

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

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

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

Sichuan Changhong Electronic Co., Limited (“Sichuan Changhong”), a company incorporated in the PRC with its shares listed on the Shanghai Stock Exchange, has obtained the control over the board of directors of the Company since 2012. Sichuan Changhong Electronics Holding Group Co., Ltd., (“Sichuan Changhong Holding”, a company established in the PRC and wholly-owned by the State-owned Assets Supervision and Administration Commission of the Mianyang city government) is the single largest shareholder of Sichuan Changhong, which held approximately 23.22% of the entire issued share capital of Sichuan Changhong and has de facto control over the composition of the majority of the board of Sichuan Changhong. In the opinion of the directors of the Company, Sichuan Changhong Holding, Sichuan Changhong, Changhong (Hong Kong) Trading Limited and Fit Generation Holding Limited (“Fit Generation”) remain as a group of controlling shareholders as at 31 December 2021. The Company’s immediate holding company is Fit Generation, a private company incorporated in the British Virgin Islands.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16
Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16

Covid-19-Related Rent Concessions
Interest Rate Benchmark Reform — Phase 2

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the “Committee”) of the International Accounting Standards Board issued in December 2020 in relation to Supply Chain Financing Arrangements, and the agenda decision issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

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

Impacts on application of the agenda decision of the Committee — Supply Chain Financing Arrangements

In December 2020, the Committee, through its agenda decision, clarified how liabilities to pay for goods or services received and the related cash flows when the related invoices are part of supply chain financing arrangements should be presented in the consolidated statement of financial position and consolidated statement of cash flows.

Based on the clarification through the agenda decision, the Group changed its accounting policies retrospectively by presenting the cash payment to financial institutions for supply chain financing arrangements under financing activities in the consolidated statement of cash flows and the recognition of relevant trade related payables are disclosed as operating cash flows.

Effects of this change in accounting policies on the consolidated statement of cash flows are as follow:

- Payments to financial institutions for supply chain financing arrangements previously included under operating activities of approximately HK\$855,143,000 have been reclassified and presented as cash outflows under financing activities for the year ended 31 December 2020, which resulted in a decrease in net cash used in operating activities for the year ended 31 December 2020 by approximately HK\$855,143,000, and decrease in net cash from financing activities for the year ended 31 December 2020 by approximately HK\$855,143,000.

For the year ended 31 December 2021, the net cash arising from operating activities would have been decreased by approximately HK\$3,104,916,000 and the net cash arising from financing activities would have been increased by approximately HK\$3,104,916,000, if the Group has not changed the accounting policies.

The reclassification has had no effect on reported profit or loss, total comprehensive income, financial position or equity for any period presented.

The effect of supply chain financing arrangements on its cash flows and disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities have been presented in Notes 35 and 23.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

| | |
|---|--|
| HKFRS 17 | Insurance Contracts and the related Amendments ³ |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework ² |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021 ¹ |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³ |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies ³ |
| Amendments to HKAS 8 | Definition of Accounting Estimates ³ |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³ |
| Amendments to HKAS 16 | Property, Plant and Equipment — Proceeds before Intended Use ² |
| Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract ² |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018–2020 ² |

¹ Effective for annual periods beginning on or after 1 April 2021.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective for annual periods beginning on or after a date to be determined.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

Amendments to HKAS 8 *Definition of Accounting Estimates*

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.1 Basis of preparation of consolidated financial statements

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Basis of consolidation *(Continued)*

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

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

Investments in subsidiaries

Investments in subsidiaries is included in the Company's statement of financial position at cost less any identified impairment loss.

Revenue from contracts with customers

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs;
or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

A receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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

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

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

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

Input method

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

Principal versus agent

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

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

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

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

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

Lease liabilities

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Lease liabilities (Continued)

The lease payments include:

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee *(Continued)*

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Foreign currencies *(Continued)*

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

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

Exchange differences relating to the retranslation of the Group's net assets in functional currencies different from the Group's presentation currency (i.e. HK\$) are recognised directly in other comprehensive income and accumulated in translation reserve. Such exchange differences accumulated in the translation reserve are not reclassified to profit or loss subsequently.

Borrowing costs

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

Government grants

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Employee benefits

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Plant and equipment

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Plant and equipment *(Continued)*

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets — research and development expenditure

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (Continued)

Intangible assets (Continued)

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

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

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

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Provisions

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

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

Contingent liabilities

A contingent liability is a present obligation arising from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Where the Group is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability and it is not recognised in the consolidated financial statements.

The Group assesses continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the consolidated financial statements in the reporting period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

All other financial assets are subsequently measured at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Receivables classified as at FVTOCI

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income" line item.

Impairment of financial assets subject to impairment assessment under HKFRS 9

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

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

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

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

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience and forward looking information that is available without undue cost or effort.

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

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

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

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

Derecognition of financial assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets (Continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of receivables that are measured at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

Offsetting a financial asset and a financial liability

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Key sources of estimation uncertainty

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

Allowance for inventories

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

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

Provision of ECL for trade receivables

Trade receivables with significant outstanding balances or credit-impaired are assessed for ECL individually.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

| Segments | For the year ended 31 December 2021 | | | |
|--|-------------------------------------|------------------------------------|--------------------|-------------------|
| | ICT consumer products HK\$'000 | ICT corporate products HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| Types of goods or service | | | | |
| Sales of Information and Communication Technology ("ICT") products | 19,652,097 | 12,476,542 | 169,760 | 32,298,399 |
| Sales of smartphone and own brand products | – | – | 12,147,744 | 12,147,744 |
| Sales of warranty packages and professional integrated ICT solutions | 18,635 | 43,907 | 18,960 | 81,502 |
| Provision of ICT services | – | – | 30,528 | 30,528 |
| | 19,670,732 | 12,520,449 | 12,366,992 | 44,558,173 |
| Timing of revenue recognition | | | | |
| A point of time | 19,670,732 | 12,520,449 | 12,336,464 | 44,527,645 |
| Overtime | – | – | 30,528 | 30,528 |
| | 19,670,732 | 12,520,449 | 12,366,992 | 44,558,173 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

5. REVENUE (Continued)

(i) Disaggregation of revenue from contracts with customers (Continued)

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

(ii) Performance obligations for contracts with customers

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION

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

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

1. ICT Consumer Products — distribution of ICT consumer products which include mainly personal computers, digital products and IT accessories.
2. ICT Corporate Products — distribution of ICT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system products and unified communications and contact centre products.
3. Others — distribution of smartphones and development of its own brand products including but not limited to intelligent terminals, sales of warranty packages and professional integrated ICT solutions and provision of ICT services.

The accounting policies of the reportable and operating segments are the same as the Group’s accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of other income, research and development expenses, finance costs, exchange loss, net as well as unallocated head office and corporate administrative expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION (Continued)

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

For the year ended 31 December 2021

| | ICT consumer products HK\$'000 | ICT corporate products HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|-----------------------------------|---|--|--------------------|-------------------|
| Revenue | | | | |
| External sales | 19,670,732 | 12,520,449 | 12,366,992 | 44,558,173 |
| Segment profit | 324,752 | 375,641 | 119,014 | 819,407 |
| Other income | | | | 67,530 |
| Research and development expenses | | | | (33,404) |
| Administrative expenses | | | | (169,182) |
| Exchange loss, net | | | | (2,816) |
| Finance costs | | | | (175,290) |
| Profit before tax | | | | 506,245 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION (Continued)

| | ICT consumer products HK\$'000 | ICT corporate products HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|---|---|--|--------------------|-------------------|
| Segment assets | 3,743,344 | 3,773,750 | 1,294,894 | 8,811,988 |
| Unallocated assets: | | | | |
| Pledged bank deposits | | | | 2,687,475 |
| Bank balances and cash | | | | 707,365 |
| Prepayments, deposits and other receivables | | | | 189,568 |
| Plant and equipment | | | | 5,668 |
| Right-of-use assets | | | | 12,524 |
| Intangible assets | | | | 21,661 |
| Financial asset at FVTPL | | | | 35,196 |
| Total consolidated assets | | | | 12,471,445 |
| Segment liabilities | 4,539,362 | 3,000,532 | 576,803 | 8,116,697 |
| Unallocated liabilities: | | | | |
| Other payables | | | | 445,043 |
| Amounts due to related companies | | | | 22,585 |
| Government grants | | | | 1,341 |
| Tax payables | | | | 12,046 |
| Borrowings | | | | 1,179,675 |
| Lease liabilities — non current | | | | 5,186 |
| Lease liabilities — current | | | | 8,612 |
| Total consolidated liabilities | | | | 9,791,185 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2020

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION (Continued)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2021

| | ICT consumer products HK\$'000 | ICT corporate products HK\$'000 | Others HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|---|---|--|--------------------|-------------------------|-------------------|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | |
| Impairment loss on trade receivables, net | 9,524 | 42,051 | 10,380 | – | 61,955 |
| Allowance (reversal of allowance) for inventories | 15,234 | 32,978 | (3,141) | – | 45,071 |
| Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets: | | | | | |
| Research and development expenses | – | – | – | 33,404 | 33,404 |
| Addition to non-current assets | – | – | – | 18,515 | 18,515 |
| Depreciation | – | – | – | 12,176 | 12,176 |
| Amortisation | – | – | – | 4,402 | 4,402 |
| Bank interest income | – | – | – | (31,453) | (31,453) |
| Finance costs | – | – | – | 175,290 | 175,290 |
| Income tax expenses | – | – | – | 92,998 | 92,998 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2020

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION (Continued)

Geographical information

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

| | 2021 HK\$'000 | 2020 HK\$'000 |
|-----------------|-------------------|------------------|
| Mainland, China | 44,427,632 | 40,326,992 |
| Other regions | 130,541 | 54,309 |
| | 44,558,173 | 40,381,301 |

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

| | 2021 HK\$'000 | 2020 HK\$'000 |
|-----------------|------------------|------------------|
| Other regions | 2 | 2 |
| Mainland, China | 39,851 | 36,807 |
| | 39,853 | 36,809 |

* Non-current assets excluded financial instruments.

Information about major customers

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

| | Year ended | |
|-------------------------|------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 |
| Customer A ¹ | 7,941,838 | 653,356 |
| Customer B ² | – | 5,171,243 |
| Customer C ³ | 481,551 | 4,791,702 |

¹ Revenue from "ICT consumer products" and "others" segment

² Revenue from "others" segment

³ Revenue from "ICT consumer products" and "others" segment

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

7. OTHER INCOME

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------------------|------------------|
| Bank interest income | 31,453 | 23,187 |
| Government grants (Note 31) | 31,984 | 25,062 |
| Gain on fair value changes of financial assets at FVTPL | 3,578 | 19,435 |
| Others | 515 | 973 |
| | 67,530 | 68,657 |

8. FINANCE COSTS

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------------------|------------------|
| Interest on: | | |
| Bank and other borrowings | 60,732 | 72,286 |
| Discounted bills receivables and payables | 99,711 | 60,975 |
| Guarantee fee | 14,313 | 10,333 |
| Lease liabilities | 534 | 536 |
| | 175,290 | 144,130 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

9. INCOME TAX EXPENSES

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Current tax: | | |
| The PRC Enterprise Income Tax ("EIT") | | |
| — Provision for the year | 86,562 | 98,967 |
| — Under(Over)provision in prior years | 6,436 | (28,888) |
| | 92,998 | 70,079 |

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

No provision for Hong Kong Profits Tax has been recognised as the Company has no estimated assessable profit subject to Hong Kong Profits Tax for the both years.

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

Beijing Changhong IT Intelligence System Co., Ltd operating in the PRC has been accredited as a "High and New Technology Enterprise" by the Ministry of Science and Technology, the PRC and relevant authorities for a term of three years, and have been registered with the local tax authorities for enjoying the reduced 15% EIT rate. Accordingly, the profits derived by the subsidiary are subject to 15% EIT rate for the year ended 31 December 2021 and 2020. The qualification as a High and New Technology Enterprise will be subject to review every three years by the relevant tax authorities in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

9. INCOME TAX EXPENSES (Continued)

In 2021, Changhong IT Information Products Co., Ltd. ("CHIT"), Changhong IT Digital Technology Co., Ltd. ("Changhong IT Digital") and Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd. (2020: Changhong IT Digital and Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd.), operating in the PRC, have been qualified as the "Encouraged Enterprises" under "The Catalogue of Encouraged Industries in Western Regions" (the "Catalogue"), as their main business is one of the encouraged business in the Catalogue and the revenue from their main business accounts for more than the required percentage of their total revenue, and enjoyed the reduced preferential EIT rate of 15%. Accordingly, the profits derived by the aforesaid subsidiaries are subject to 15% EIT rate.

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

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Profit before tax | 506,245 | 415,477 |
| Tax at the domestic income tax rate of 25% (2020: 25%) (Note) | 126,561 | 103,869 |
| Tax effect of income not taxable for tax purpose | (12) | (17) |
| Tax effect of expenses not deductible for tax purpose | 3,735 | 1,297 |
| Effect of tax exemption and tax concessions | (57,708) | (30,983) |
| Tax effect of tax losses not recognised | 6,486 | 2,961 |
| Utilisation of tax losses not recognised | (916) | – |
| Tax effect of deductible temporary differences not recognised | 18,916 | 19,086 |
| Utilisation of deductible temporary differences not recognised | (764) | (589) |
| Under(over)provision in prior years | 6,436 | (28,888) |
| Others | (9,736) | 3,343 |
| Income tax expenses | 92,998 | 70,079 |

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

9. INCOME TAX EXPENSES *(Continued)*

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to HK\$2,824,276,000 (2020: HK\$2,322,075,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of HK\$99,483,000 (2020: HK\$77,203,000) contributed by continuing operations available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unrecognised tax losses of approximately HK\$80,679,000 (2020: HK\$55,088,000) will expire from 2023 to 2031 (2020: 2023 to 2030), and approximately HK\$18,804,000 (2020: HK\$22,115,000), subject to agreement by Hong Kong Inland Revenue Department, may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences in relation to allowance for inventories, provisions for ECL and other miscellaneous expense deductions of HK\$154,916,000 (2020: HK\$82,308,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Depreciation for plant and equipment | 2,112 | 3,859 |
| Depreciation for right-of-use assets | 10,064 | 8,133 |
| Amortisation of intangible assets | 4,402 | 4,177 |
| Auditor's remuneration | 2,761 | 2,350 |
| Directors' emoluments | 17,454 | 14,916 |
| Cost of inventories recognised as an expense | 43,239,733 | 39,302,538 |
| Staff costs, (including directors' emoluments) | | |
| — Salaries and related staff costs | 364,166 | 283,720 |
| — Retirement benefits scheme contributions | 66,073 | 35,452 |
| | 430,239 | 319,172 |
| Allowance for inventories, net (included in cost of sales) | 45,071 | 46,870 |
| Impairment loss on trade receivables, net | 61,955 | 19,114 |
| Research and development expenses (<i>Note</i>) | 33,404 | 24,557 |
| Written off of plant and equipment | – | 9,989 |
| Written off of software | – | 7,070 |

Note: Included in the research and development expenses, approximately HK\$13,067,000 (2020: HK\$10,240,000) are related to staff costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Directors' and chief executive's emoluments

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

For the year ended 31 December 2021

| | Fees HK\$'000 | Salaries and allowances HK\$'000 | Retirement benefits scheme contributions HK\$'000 | Performance related incentive payments HK\$'000 | Total HK\$'000 |
|--|------------------|--|---|---|-------------------|
| Executive directors | | | | | |
| Mr. Zhu Jianqiu (<i>Chief Executive</i>) | – | 1,280 | 141 | 15,473 | 16,894 |
| Mr. Zhao Yong (resigned on 8 April 2021) | – | – | – | – | – |
| Mr. Yang Jun (resigned on 8 April 2021) | – | – | – | – | – |
| Mr. Luo Yongping (resigned on 20 October 2021) | – | – | – | – | – |
| Mr. Zhang Xiaolong (appointed on 8 April 2021) | – | – | – | – | – |
| Mr. Pan Xiaoyong (appointed on 8 April 2021) | – | – | – | – | – |
| Mr. Zhou Jiachao (appointed on 20 October 2021) | – | – | – | – | – |
| Sub-total | – | 1,280 | 141 | 15,473 | 16,894 |
| Independent non-executive directors | | | | | |
| Mr. Jonathan Chan Ming Sun | 200 | – | – | – | 200 |
| Mr. Gao Xudong | 180 | – | – | – | 180 |
| Mr. Meng Gingbin | 180 | – | – | – | 180 |
| Sub-total | 560 | – | – | – | 560 |
| Total | | | | | 17,454 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2020

| | Fees HK\$'000 | Salaries and allowances HK\$'000 | Retirement benefits scheme contributions HK\$'000 | Performance related incentive payments HK\$'000 | Total HK\$'000 |
|---|------------------|--|---|---|-------------------|
| Executive directors | | | | | |
| Mr. Zhu Jianqiu (<i>Chief Executive</i>) | – | 1,241 | 94 | 13,021 | 14,356 |
| Mr. Zhao Yong (resigned on 8 April 2021) | – | – | – | – | – |
| Mr. Yang Jun (resigned on 8 April 2021) | – | – | – | – | – |
| Mr. Luo Yongping (resigned on 20 October 2021) | – | – | – | – | – |
| Sub-total | – | 1,241 | 94 | 13,021 | 14,356 |
| Independent non-executive directors | | | | | |
| Mr. Jonathan Chan Ming Sun | 200 | – | – | – | 200 |
| Mr. Gao Xudong | 180 | – | – | – | 180 |
| Mr. Meng Gingbin | 180 | – | – | – | 180 |
| Sub-total | 560 | – | – | – | 560 |
| Total | | | | | 14,916 |

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Five highest paid individuals

Of the five individuals with the highest emoluments in this Group, one (2020: one) was a director of the Company whose emoluments are included in the disclosure as above. The emoluments of the remaining four (2020: four) individuals who are neither directors nor chief executive of the Company were as follows:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------------------|------------------|
| Salaries and other allowances | 18,709 | 15,839 |
| Retirement benefit scheme contributions | 508 | 246 |
| | 19,217 | 16,085 |

Their emoluments fell within the following bands:

| | Number of individuals | |
|--------------------------------|-----------------------|------|
| | 2021 | 2020 |
| HK\$2,500,001 to HK\$3,000,000 | – | 1 |
| HK\$3,000,001 to HK\$3,500,000 | 1 | 1 |
| HK\$3,500,001 to HK\$4,000,000 | 1 | 1 |
| HK\$4,000,001 to HK\$4,500,000 | 1 | – |
| HK\$6,000,001 to HK\$6,500,000 | – | 1 |
| Over HK\$7,000,000 | 1 | – |
| | 4 | 4 |

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years. During the years ended 31 December 2021, all executive directors waived emoluments of HK\$60,000 each (2020: HK\$60,000 each).

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

12. DIVIDENDS

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------------------|------------------|
| Dividends recognised as distribution during the year: | | |
| 2020 Final — HK5 cents per share (2020: 2019 Final — HK4 cents per share) | 128,526 | 102,821 |

The directors recommend the payment of a final dividend of HK5 cents (2020 Final: HK5 cents) per share in respect of the year ended 31 December 2021 which is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

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

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Earnings | | |
| Profit for the year attributable to owners of the Company | 413,247 | 345,398 |
| Less: Earnings attributable to convertible preference shares | (179,391) | (149,938) |
| Earnings for the purpose of basic earnings per share | 233,856 | 195,460 |
| Add: Earnings attributable to convertible preference shares | 179,391 | 149,938 |
| Earnings for the purpose of diluted earnings per share | 413,247 | 345,398 |

| | 2021 '000 | 2020 '000 |
|--|------------------|--------------|
| Number of Shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,454,652 | 1,454,652 |
| Weighted average number of convertible preference shares for the purpose of diluted earnings per share | 1,115,868 | 1,115,868 |
| Weighted average number of shares for the purpose of diluted earnings per share | 2,570,520 | 2,570,520 |

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For the year ended 31 December 2021

14. PLANT AND EQUIPMENT

| | Furniture, fixtures and equipment <i>HK\$'000</i> | Leasehold improvements <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-------------------------------------|--|--|--------------------------------------|--------------------------|
| COST | | | | |
| At 1 January 2020 | 63,866 | 5,743 | 1,968 | 71,577 |
| Additions | 855 | – | – | 855 |
| Written off/disposal | (17,870) | – | (1,983) | (19,853) |
| Exchange realignment | 3,145 | 365 | 15 | 3,525 |
| At 31 December 2020 | 49,996 | 6,108 | – | 56,104 |
| Additions | 1,832 | – | – | 1,832 |
| Written off/disposal | (1,429) | – | – | (1,429) |
| Exchange realignment | 1,488 | 184 | – | 1,672 |
| At 31 December 2021 | 51,887 | 6,292 | – | 58,179 |
| DEPRECIATION | | | | |
| At 1 January 2020 | 45,905 | 5,568 | 1,778 | 53,251 |
| Charge for the year | 3,629 | 177 | 53 | 3,859 |
| Written off/eliminated on disposals | (8,018) | – | (1,846) | (9,864) |
| Exchange realignment | 2,754 | 363 | 15 | 3,132 |
| At 31 December 2020 | 44,270 | 6,108 | – | 50,378 |
| Charge for the year | 2,112 | – | – | 2,112 |
| Written off/eliminated on disposals | (1,429) | – | – | (1,429) |
| Exchange realignment | 1,266 | 184 | – | 1,450 |
| At 31 December 2021 | 46,219 | 6,292 | – | 52,511 |
| CARRYING VALUES | | | | |
| At 31 December 2021 | 5,668 | – | – | 5,668 |
| At 31 December 2020 | 5,726 | – | – | 5,726 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

14. PLANT AND EQUIPMENT (Continued)

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

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

15. INTANGIBLE ASSETS

| | Software HK\$'000 |
|----------------------------|----------------------|
| COST | |
| At 1 January 2020 | 33,721 |
| Additions | 145 |
| Written off | (9,742) |
| Exchange realignment | 1,614 |
| <hr/> | |
| At 31 December 2020 | 25,738 |
| Additions | 7,057 |
| Exchange realignment | 878 |
| <hr/> | |
| At 31 December 2021 | 33,673 |
| AMORTISATION | |
| At 1 January 2020 | 5,317 |
| Charge for year | 4,177 |
| Elimination of written off | (2,672) |
| Exchange realignment | 432 |
| <hr/> | |
| At 31 December 2020 | 7,254 |
| Charge for year | 4,402 |
| Exchange realignment | 356 |
| <hr/> | |
| At 31 December 2021 | 12,012 |
| CARRYING VALUES | |
| At 31 December 2021 | 21,661 |
| <hr/> | |
| At 31 December 2020 | 18,484 |
| <hr/> | |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

15. INTANGIBLE ASSETS (Continued)

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

During the year ended 31 December 2020, software of HK\$7,070,000 was written off as the product line was not profitable (2021: Nil).

16. RIGHT-OF-USE ASSETS

| | Office premises HK\$'000 |
|----------------------------|--------------------------------|
| COST | |
| At 1 January 2020 | 9,810 |
| Addition | 17,093 |
| Exchange realignment | 1,589 |
| <hr/> | |
| At 31 December 2020 | 28,492 |
| Addition | 9,626 |
| Written off | (11,770) |
| Exchange realignment | 805 |
| <hr/> | |
| At 31 December 2021 | 27,153 |
| ACCUMULATED DEPRECIATION | |
| At 1 January 2020 | 6,864 |
| Charge for the year | 8,133 |
| Exchange realignment | 896 |
| <hr/> | |
| At 31 December 2020 | 15,893 |
| Charge for the year | 10,064 |
| Elimination of written off | (11,770) |
| Exchange realignment | 442 |
| <hr/> | |
| At 31 December 2021 | 14,629 |
| CARRYING AMOUNT | |
| At 31 December 2021 | 12,524 |
| <hr/> | |
| At 31 December 2020 | 12,599 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

16. RIGHT-OF-USE ASSETS (Continued)

| | Year ended 31/12/2021 HK\$'000 | Year ended 31/12/2020 HK\$'000 |
|---------------------------------------|--------------------------------------|--------------------------------------|
| Expense relating to short-term leases | 2,070 | 1,903 |
| Total cash outflow for leases | 13,403 | 10,316 |

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

17. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2021 HK\$'000 | 2020 HK\$'000 |
|------------------------------------|------------------|------------------|
| Unlisted investment, at fair value | 35,196 | 30,666 |

On 11 April 2015, Changhong IT Digital, an indirect wholly-owned subsidiary of the Company, entered into contracts with an independent third parties to invest RMB27,500,000 to establish Sichuan Hongyun New Generation of IT Venture Capital Fund* 四川虹雲新一代信息技術創業投資基金合夥企業(有限合夥) ("Sichuan Hongyun"), a private entity incorporated in the PRC, in which Changhong IT Digital holds 11% of the total partnership interest. As at 31 December 2021 and 2020, Changhong IT Digital has paid in full the investment amount to Sichuan Hongyun. During the year ended 31 December 2021, Sichuan Hongyun has fair value gain of HK\$3,578,000.

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

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

* English name is for identification purpose only.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

18. TRADE RECEIVABLES

| | 2021 HK\$'000 | 2020 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Trade receivables | 4,466,259 | 3,156,574 |
| Less: Allowance for credit losses | (80,472) | (46,538) |
| | 4,385,787 | 3,110,036 |

As at 1 January 2020, trade receivables from contracts with customers amounted to HK\$2,087,415,000.

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

| | 2021 HK\$'000 | 2020 HK\$'000 |
|----------------|------------------|------------------|
| Within 30 days | 1,361,470 | 1,847,405 |
| 31–60 days | 962,161 | 661,307 |
| 61–90 days | 334,596 | 177,991 |
| 91–180 days | 325,960 | 285,422 |
| 181–365 days | 1,189,158 | 77,526 |
| Over 1 year | 212,442 | 60,385 |
| | 4,385,787 | 3,110,036 |

The Group allows a credit period ranging from 30–180 days to its third party trade customers. As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$1,541,802,000 (2020: HK\$494,195,000) which are past due but not impaired as at the reporting date. Out of the past due balances, HK\$1,003,648,000 (2020: HK\$70,495,000) has been past due 90 days or more and is not considered as in default as there has not been a significant change in credit quality and the amounts are still considered fully recoverable.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

19. BILLS RECEIVABLES AT FVTOCI

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Bills receivables at FVTOCI comprise of: | | |
| Bills receivables aged within 360 days presented based on the issue dates of bills receivables | 59,030 | 418,414 |

The Group's bills receivables are considered as within the hold to collect contractual cash flows and to sell business model, and classified as debt instruments at FVTOCI. Advances on discounted bills of HK\$3,924,801,000 (2020: HK\$3,533,340,000) are presented as financing cash inflow during the year, among which bills receivables of HK\$2,421,204,000 (2020: HK\$3,015,961,000) is matured before the year end. Bills receivables endorsed HK\$983,272,000 (2020: HK\$1,367,530,000) are presented as operating cashflow during the year. Outstanding discounted and endorsed bills receivables with recourse are set out in Note 32.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2021 HK\$'000 | 2020 HK\$'000 |
|----------------------|------------------|------------------|
| Prepayments | 112 | 109 |
| Other tax receivable | 115,634 | 49,410 |
| Deposits | 13,140 | 11,521 |
| Other receivables | 60,682 | 58,156 |
| | 189,568 | 119,196 |

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

21. INVENTORIES

| | 2021 HK\$'000 | 2020 HK\$'000 |
|----------------------|------------------|------------------|
| Trading merchandises | 3,667,994 | 3,131,603 |

As at 31 December 2021, the carrying amount of inventories was net of allowance for inventories of approximately HK\$132,533,000 (2020: HK\$84,340,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances bear interests at floating rates based on bank deposits rates which ranged from 0.35% to 2.8% (2020: 0.35% to 2.76%) per annum.

At 31 December 2021, pledged bank deposits were pledged to secure general banking facilities granted to the Group at floating rates which ranged from 0.35% to 2.1% (2020: 0.35% to 2.95%) per annum.

23. TRADE AND BILLS PAYABLES

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

| | 2021 HK\$'000 | 2020 HK\$'000 |
|----------------|------------------|------------------|
| Within 30 days | 2,988,140 | 2,758,239 |
| 31–60 days | 1,788,474 | 1,626,687 |
| 61–90 days | 737,896 | 292,518 |
| 91–180 days | 1,669,499 | 723,689 |
| 181–365 days | 556,546 | 175,579 |
| Over 1 year | 99,169 | 45,604 |
| | 7,839,724 | 5,622,316 |

The credit period on purchase of goods is ranging from 30–120 days (2020: 30–120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

At 31 December 2021, the Group has trade and bills payables under supply chain financing arrangements of HK\$3,149,064,000 (2020: HK\$1,728,850,000) through financial institutions with an extended payment period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

24. OTHER PAYABLES

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--|------------------|------------------|
| Accruals | 37,934 | 29,076 |
| Provision for social insurance and housing provident fund (Note) | 42,929 | 42,626 |
| Other tax payables | 175,838 | 87,812 |
| Salaries payables | 130,920 | 119,947 |
| Interest payables | 6,154 | 5,857 |
| Government grants (Note 31) | 477 | 464 |
| Other payables | 50,791 | 45,929 |
| | 445,043 | 331,711 |

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

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

As at 31 December 2021, the Group has total accumulated unpaid amount of social insurance and housing provident fund of approximately HK\$42,929,000 (2020: HK\$42,626,000). Provisions for the unpaid amounts had been recognised and included in other payables. As at 31 December 2021, the Group had not received any notice from the relevant housing fund or social security authorities ordering the Group to make outstanding payments or rectification, or any administrative penalties from the relevant authorities. The relevant authorities may request the Group at any time to pay up the outstanding amount of the social insurance or housing provident fund contributions and may impose a fine of up to three times of the unpaid amount of social insurance and housing provident fund on the Group if the above mentioned unpaid amounts are not settled within the time specified in the notice. The fine will be recognised in the consolidated statement of financial position if the Group does not settle the unpaid amounts within a specific time upon the request. During the years ended 31 December 2021 and 2020, no such request was received by the Group.

25. CONTRACT LIABILITIES

| | 2021 HK\$'000 | 2020 HK\$'000 |
|-------------------------------|------------------|------------------|
| Contract liabilities, current | 276,973 | 444,244 |

As at 1 January 2020, contract liabilities amounted to HK\$409,903,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

25. CONTRACT LIABILITIES (Continued)

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

| | Sales of ICT product HK\$'000 |
|---|-------------------------------------|
| For the year ended 31 December 2021 | |
| Revenue recognised that was included in the contract liabilities balance at the beginning of the year | 418,969 |
| For the year ended 31 December 2020 | |
| Revenue recognised that was included in the contract liabilities balance at the beginning of the year | 395,116 |

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

26. LEASE LIABILITIES

| | 31/12/2021 HK\$'000 | 31/12/2020 HK\$'000 |
|--|------------------------|------------------------|
| Lease liabilities payable: | | |
| Within one year | 8,612 | 8,800 |
| Within a period of more than one year but not more than two years | 4,405 | 4,684 |
| Within a period of more than two years but not exceeding five years | 781 | – |
| | 13,798 | 13,484 |
| Less: Amount due for settlement with 12 months shown under current liabilities | (8,612) | (8,800) |
| Amount due for settlement after 12 months shown under non-current liabilities | 5,186 | 4,684 |

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

27. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES

| | Number of shares | | Share capital | |
|---|------------------|--------------|------------------|------------------|
| | 2021 '000 | 2020 '000 | 2021 HK\$'000 | 2020 HK\$'000 |
| Authorised: | | | | |
| Ordinary shares of HK\$0.025 each At the beginning and at the end of the financial year | 5,000,000 | 5,000,000 | 125,000 | 125,000 |
| Convertible preference shares of HK\$0.025 each At the beginning and at the end of the financial year | 3,000,000 | 3,000,000 | 75,000 | 75,000 |

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

| | Ordinary share | | Share capital | |
|------------------------------|----------------|--------------|------------------|------------------|
| | 2021 '000 | 2020 '000 | 2021 HK\$'000 | 2020 HK\$'000 |
| Issued and fully paid: | | | | |
| At beginning and end of year | 1,454,652 | 1,454,652 | 36,366 | 36,366 |

| | Convertible preference share | | Share capital | |
|------------------------------|------------------------------|--------------|------------------|------------------|
| | 2021 '000 | 2020 '000 | 2021 HK\$'000 | 2020 HK\$'000 |
| At beginning and end of year | 1,115,868 | 1,115,868 | 27,897 | 27,897 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

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

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

- (i) in paying to the holders of the convertible preference shares, *pari passu* as between themselves by reference to the aggregate nominal amount of the convertible preference shares held by them respectively, an amount is equal to the aggregate of the issue price of all of the convertible preference shares held by them respectively;
- (ii) the balance of such assets shall be distributed on a *pari passu* basis among the holders of any class of shares in the capital of the Company other than the convertible preference shares and other than any shares which are not entitled to participate in the distribution of such assets, by reference to the aggregate nominal amount paid up on the shares held by them respectively; and
- (iii) the remaining balance of such assets shall belong to and be distributed on a *pari passu* basis among the holders of any class of shares including the convertible preference shares, other than any shares that are not entitled to participate of such assets, by reference to the aggregate nominal amount of shares held by them respectively.

28. DEFERRED TAXATION

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

29. BORROWINGS

| | 2021 HK\$'000 | 2020 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Borrowings from a related company | – | 499,049 |
| Bank borrowings | 1,179,675 | 1,696,402 |
| | 1,179,675 | 2,195,451 |

The borrowings from a related company represented the advance from a fellow subsidiary, 四川長虹集團財務有限公司 (“長虹財務”), as at 31 December 2020.

Bank borrowings are unsecured and repayable based on scheduled repayment dates set out in the loan agreements. The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's bank borrowings for the year ended 31 December 2021 is fixed from 0.84% to 5.38% per annum (2020: 0.60% to 5.50% per annum).

30. RETIREMENT BENEFIT SCHEME

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

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2021, contributions of the Group under the MPF Scheme amounted to approximately HK\$37,000 (2020: HK\$54,000).

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government (the “PRC Pension Scheme”). The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefit. The only obligation of the Group with respect to the pension scheme is to make the required contributions. For the year ended 31 December 2021, contributions of the Group under the PRC Pension Scheme amounted to approximately HK\$66,036,000 (2020: HK\$35,398,000).

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately HK\$66,073,000 (2020: HK\$35,452,000) for the year ended 31 December 2021, represent contributions payable to these schemes by the Group during the year ended 31 December 2021.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

31. GOVERNMENT GRANTS

| | Government grants related to ESS HK\$'000 | Government grants related to assets HK\$'000 | Government grants related to income HK\$'000 | Total HK\$'000 |
|-----------------------------|--|---|---|-------------------|
| At 1 January 2020 | – | 2,541 | – | 2,541 |
| Receipt of government grant | 108 | – | 24,505 | 24,613 |
| Credit to other income | (108) | (449) | (24,505) | (25,062) |
| Exchange realignment | – | 138 | – | 138 |
| At 31 December 2020 | – | 2,230 | – | 2,230 |
| Receipt of government grant | – | – | 31,513 | 31,513 |
| Credit to other income | – | (471) | (31,513) | (31,984) |
| Exchange realignment | – | 59 | – | 59 |
| At 31 December 2021 | – | 1,818 | – | 1,818 |

The movement of government grants is as follows:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------------------|------------------|
| Balance as at 31 December | 1,818 | 2,230 |
| Less: Amounts to be recognised as government grants within one year, classified as current liabilities and included in other payables | 477 | 464 |
| Amounts to be recognised as government grants after one year, classified as non-current liabilities | 1,341 | 1,766 |

During the year ended 31 December 2020, the Group recognised government grants of HK\$108,000 in respect of Covid-19-related subsidies, of which the full amount relates to Employment Support Scheme provided by the Hong Kong Government.

The Group received government grants and tax refunds of approximately HK\$31,513,000 (2020: HK\$24,505,000) during the year ended 31 December 2021 towards the research and development expenditure. The amounts have been treated as deferred income and are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. This policy has resulted in a credit to other income in the current year of approximately HK\$31,513,000 (2020: HK\$24,505,000).

The Group received government grants towards the acquisition of plant and equipment. The amounts have been treated as deferred income and transferred to income over the useful lives of the related assets. This policy has resulted in a credit to other income in the current year of approximately HK\$471,000 (2020: HK\$449,000).

Notes to the Consolidated Financial Statements

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32. CONTINGENT LIABILITIES

During the years ended 31 December 2021 and 2020, the Group (i) endorsed certain bills receivables for the settlement of trade and other payables; and (ii) discounted certain bills receivables to banks for raising of cash. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivables, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of default in payment of the endorsed and discounted bills receivables is low because all endorsed and discounted bills receivables are issued and guaranteed by the reputable banks in the PRC. As a result, the relevant assets and liabilities have been derecognised in the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivables at the end of each reporting period are as follows:

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------------------|------------------|
| Settlement of trade and other payables | 436,058 | 727,119 |
| Discounted bills for raising of cash | 945,176 | 385,294 |
| Outstanding endorsed and discounted bills receivables with recourse | 1,381,234 | 1,112,413 |

The outstanding endorsed and discounted bills receivables are aged within 360 days (2020: 360 days) at the end of each reporting period.

33. CAPITAL RISK MANAGEMENT

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

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

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

Notes to the Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS

34a. Categories of financial instruments

| | 2021 HK\$'000 | 2020 HK\$'000 |
|------------------------------------|------------------|------------------|
| Financial assets | | |
| Financial asset at FVTPL | 35,196 | 30,666 |
| Bills receivables at FVTOCI | 59,030 | 418,414 |
| Financial assets at amortised cost | 7,849,609 | 6,456,979 |
| | 7,943,835 | 6,906,059 |
| Financial liabilities | | |
| At amortised cost | 9,229,849 | 8,005,378 |

34b. Financial risk management objectives and policies

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

Notes to the Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

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

| | Assets | | Liabilities | |
|---|------------------|------------------|------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 | 2021 HK\$'000 | 2020 HK\$'000 |
| United States dollars ("USD") (RMB as functional currency) | 74,731 | 49,425 | 126,694 | 145,649 |
| USD (HK\$ as functional currency) | 44,771 | 25,878 | 38,734 | 95,318 |

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

Sensitivity analysis

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

The following table details the Group's sensitivity to a 10% (2020: 10%) increase and decrease in the functional currency of group entities against the relevant foreign currencies. 10% (2020: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 10% (2020: 10%) change in foreign currency rates. A positive number below indicates increase in post-tax profit where functional currency of group entities strengthen 10% (2020: 10%) against the relevant currency. For a 10% (2020: 10%) weakening of functional currency of group entities against the relevant currency, there would be an equal and opposite impact on the post-tax profit.

Notes to the Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

| | USD Impact | |
|----------------|------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 |
| Profit or loss | 3,897 | 7,217 |

(ii) Interest rate risk

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

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

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. 100 basis points (2020: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

As at 31 December 2021, if interest rates on bank deposits had been 100 basis points (2020: 100 basis points) higher/lower and all other variables were held constant, post-tax profit for the year ended 31 December 2021 would have increased/decreased by HK\$2,752,000 (2020: HK\$5,941,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate short-term bank deposits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(iii) Other price risk

As at 31 December 2021, the Group's investment in an unlisted investment is classified at FVTPL. If the fair value of the respective unlisted investment had been 5% (2020: 5%) higher/lower, the post-tax profit would increase/decrease by HK\$1,320,000 (2020: HK\$1,150,000).

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

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, pledged bank deposits, bank balances, amounts due from related companies, other receivables and bills receivables at FVTOCI. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with settlement of certain bills receivables at FVTOCI are backed by bills guaranteed by reputable financial institutions. As of 31 December 2021, the credit risks associated with certain trade receivables are mitigated because they are secured over some commercial properties.

Trade and bills receivables arising from contracts with customers

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS *(Continued)*

34b. Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

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

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

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. Except for trade receivables that are with significant outstanding balances or credit-impaired, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. Impairment of HK\$61,955,000 (2020: HK\$19,114,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

Amounts due from related companies and other receivables

Given the track record of high turnover in other receivables with trading counterparties of HK\$60,676,000 (2020: HK\$46,057,000) and trade-related amounts due from related company under individual assessment, the directors of the Company are of the opinion that the risks of default by these counterparties are not significant, taking into account forward-looking information on macroeconomic factors. Therefore, expected credit loss rates of these financial assets are assessed to be insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Pledged bank deposits and bank balances

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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

| | Internal credit rating | 12m or lifetime ECL | Gross carrying amount | | | |
|--|------------------------|--|-----------------------|-----------|-----------|-----------|
| | | | 2021 | | 2020 | |
| | | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets at amortised costs | | | | | | |
| Trade receivables — contracts with customers | (Note) | Lifetime ECL — (collective assessment) | 3,224,063 | | 3,101,947 | |
| | Doubtful | Lifetime ECL — (individual assessment) | 1,032,713 | | — | |
| | Loss | Credit-impaired | 209,483 | 4,466,259 | 54,627 | 3,156,574 |

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

Provision matrix — debtors' aging

As part of the Group's credit risk management, the Group uses aging of trade receivables to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables on invoice date which are assessed based on provision matrix as at 31 December 2021 within lifetime ECL (not credit-impaired). Trade receivables with significant outstanding balances or credit-impaired with gross carrying amounts of HK\$1,032,713,000 and HK\$209,483,000 respectively as at 31 December 2021 (2020: Nil and HK\$54,627,000) which legal action has been taken by the Group to demand for repayment. These debtors are assessed individually.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Gross carrying amount

| | 2021 | | 2020 | |
|---------------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|
| | Average loss rate | Trade receivables HK\$'000 | Average loss rate | Trade receivables HK\$'000 |
| Current and within one year | 0.2% | 3,113,442 | 0.2% | 3,039,404 |
| Over one year and within two years | 15% | 79,338 | 15% | 41,340 |
| Over two years and within three years | 35% | 25,677 | 35% | 12,367 |
| More than three years | 40% | 5,606 | 40% | 8,836 |
| | | 3,224,063 | | 3,101,947 |

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

During the year ended 31 December 2021, the Group provided net impairment allowance of HK\$12,845,000 (2020: HK\$4,035,000) for trade receivables, based on the collective assessment. Impairment allowance of HK\$11,758,000 and HK\$37,352,000 (2020: Nil and HK\$15,079,000) were made on debtors with significant balance and credit-impaired receivables, respectively.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

| | Lifetime ECL (individual assessment) <i>HK\$'000</i> | Lifetime ECL (collective assessment) <i>HK\$'000</i> | Lifetime ECL (credit- impaired) <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|---|--|--------------------------|
| As at 1 January 2020 | – | 15,339 | 25,374 | 40,713 |
| Changes due to financial instruments recognised as at 1 January 2020: | | | | |
| — Transfer to credit-impaired | – | (234) | 234 | – |
| — Impairment losses recognised | – | 13,008 | 11,975 | 24,983 |
| — Impairment losses reversed | – | (13,794) | (761) | (14,555) |
| — Write-offs | – | – | (15,892) | (15,892) |
| New financial assets originated | – | 4,821 | 3,865 | 8,686 |
| Exchange adjustments | – | 1,003 | 1,600 | 2,603 |
| As at 31 December 2020 | – | 20,143 | 26,395 | 46,538 |
| Changes due to financial instruments recognised as at 1 January 2021: | | | | |
| — Transfer to credit-impaired | 280 | (1,406) | 1,126 | – |
| — Impairment losses recognised | – | 20,223 | 7,256 | 27,479 |
| — Impairment losses reversed | – | (12,125) | (1,707) | (13,832) |
| — Write-offs | – | (3,408) | (26,912) | (30,320) |
| New financial assets originated | 11,758 | 4,747 | 31,803 | 48,308 |
| Exchange adjustments | 172 | 1,183 | 944 | 2,299 |
| As at 31 December 2021 | 12,210 | 29,357 | 38,905 | 80,472 |

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. The Group has taken legal action against the debtors to recover the amount due.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Liquidity risk

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

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

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

| | Weighted average effective interest rate % | Repayable on demand or less than 1 month HK\$'000 | 1-3 months HK\$'000 | Over 3 months but less than 1 year HK\$'000 | 1-5 year HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|---|--|---|------------------------|---|----------------------|---|--------------------------------|
| 2021 | | | | | | | |
| Non-derivative financial liabilities and lease liabilities | | | | | | | |
| Trade and bills payables | - | 4,690,660 | - | - | - | 4,690,660 | 4,690,660 |
| Trade and bills payables — supply chain financing | 2.46 | 1,770,991 | 1,042,343 | 354,339 | - | 3,167,673 | 3,149,064 |
| Other payables | | 187,865 | - | - | - | 187,865 | 187,865 |
| Amounts due to related companies | - | 22,585 | - | - | - | 22,585 | 22,585 |
| Borrowings | 3.72 | 369,131 | 399,465 | 418,560 | - | 1,187,156 | 1,179,675 |
| Lease liabilities | 4.75 | - | 3,394 | 5,506 | 5,536 | 14,436 | 13,798 |
| | | 7,041,232 | 1,445,202 | 778,405 | 5,536 | 9,270,375 | 9,243,647 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

| | Weighted average effective interest rate % | Repayable on demand or less than 1 month HK\$'000 | 1-3 months HK\$'000 | Over 3 months but less than 1 year HK\$'000 | 1-5 year HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|---|--|---|---------------------|---|-------------------|--|--------------------------|
| 2020 | | | | | | | |
| Non-derivative financial liabilities and lease liabilities | | | | | | | |
| Trade and bills payables | – | 3,893,466 | – | – | – | 3,893,466 | 3,893,466 |
| Trade and bills payables — supply chain financing | 3.01 | 756,408 | 981,685 | – | – | 1,738,093 | 1,728,850 |
| Other payables | – | 171,733 | – | – | – | 171,733 | 171,733 |
| Amounts due to related companies | – | 15,878 | – | – | – | 15,878 | 15,878 |
| Borrowings | 3.90 | 445,160 | 1,048,187 | 718,430 | – | 2,211,777 | 2,195,451 |
| Lease liabilities | 4.75 | – | 2,291 | 6,666 | 4,684 | 13,641 | 13,484 |
| | | 5,282,645 | 2,032,163 | 725,096 | 4,684 | 8,044,588 | 8,018,862 |

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

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

| Financial assets | Fair values as at | | Fair value hierarchy | Valuation technique and key input(s) | Significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|-----------------------------|-------------------|---------------|----------------------|---|--|---|
| | 2021 HK\$'000 | 2020 HK\$'000 | | | | |
| Financial asset at FVTPL | 35,196 | 30,666 | Level 3 | Direct comparison-reference to market evidence of recent transaction prices of the underlying or comparable investments | Recent transaction prices of underlying and comparable investments | The higher the transaction prices of underlying investments, the higher the fair value, vice versa. |
| Bills receivables at FVTOCI | 59,030 | 418,414 | Level 2 | Discounted cash flow — estimated future cash flows are discounted at market interest rate that reflects the time value to the date of settlement. | N/A | N/A |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (Continued)

34b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

(ii) Reconciliation of Level 3 fair value measurements

| | Financial asset at FVTPL HK\$'000 |
|------------------------------------|---|
| At 1 January 2020 | 30,699 |
| Fair value gains in profit or loss | 19,435 |
| Disposal | (21,338) |
| Exchange adjustments | 1,870 |
| <hr/> | |
| At 31 December 2020 | 30,666 |
| Fair value gains in profit or loss | 3,578 |
| Exchange adjustments | 952 |
| <hr/> | |
| At 31 December 2021 | 35,196 |

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

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

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

Notes to the Consolidated Financial Statements

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35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Borrowings | Other payables — interest payable | Other payables — dividend payable | Other payables — guarantee fee payable | Lease liabilities | Bills payables under supplier financing | Total |
|-------------------------------------|------------------|-----------------------------------|-----------------------------------|--|-------------------|---|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2020 | 1,005,285 | 7,836 | – | – | 3,139 | 290,243 | 1,306,503 |
| Financing cash flows (Restated) | 4,636,811 | (74,385) | (101,406) | (10,333) | (8,413) | (871,530) | 3,570,744 |
| Non-cash transaction | | | | | | | |
| Dividend recognised as distribution | – | – | 102,821 | – | – | – | 102,821 |
| Bills payables issued | – | – | – | – | – | 2,199,744 | 2,199,744 |
| Finance costs | 44,588 | 72,286 | – | 10,333 | 536 | 16,387 | 144,130 |
| Discounted bills | (3,594,315) | – | – | – | – | – | (3,594,315) |
| New lease entered | – | – | – | – | 17,093 | – | 17,093 |
| Foreign exchange translation | 103,082 | 120 | – | – | 1,129 | 94,006 | 198,337 |
| At 31 December 2020 | 2,195,451 | 5,857 | 1,415 | – | 13,484 | 1,728,850 | 3,945,057 |
| Financing cash flows | 2,868,225 | (60,556) | (128,526) | (6,029) | (11,333) | (3,138,519) | (476,738) |
| Non-cash transaction | | | | | | | |
| Dividend recognised as distribution | – | – | 128,526 | – | – | – | 128,526 |
| Bills payables issued | – | – | – | – | – | 4,455,012 | 4,455,012 |
| Finance costs | 66,108 | 60,732 | – | 14,313 | 534 | 33,603 | 175,290 |
| Discounted bills | (3,990,909) | – | – | – | – | – | (3,990,909) |
| New lease entered | – | – | – | – | 9,626 | – | 9,626 |
| Foreign exchange translation | 40,800 | 121 | – | – | 1,487 | 70,118 | 112,405 |
| At 31 December 2021 | 1,179,675 | 6,154 | 1,415 | 8,284 | 13,798 | 3,149,064 | 4,358,269 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

36. RELATED PARTY DISCLOSURES

(a) Related parties transactions

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

| Name of company | Notes | Nature of transaction | 2021 HK\$'000 | 2020 HK\$'000 |
|---|-------|-----------------------------------|------------------|------------------|
| Immediate and ultimate holding company of the Company | | | | |
| Sichuan Changhong | (i) | Sales of goods | 10,444 | 13,379 |
| | | Administrative expenses | | |
| | | — rental expenses | 49 | 52 |
| | | Selling and distribution expenses | 85 | 60 |
| | | — certificate fee | | |
| | | Finance cost — guarantee charge | 4,890 | 3,438 |
| | | Guarantee to suppliers | | |
| | | — Maximum amount granted | 1,205,793 | 900,151 |
| Shareholder of immediate and ultimate holding company of the Company | | | | |
| 四川長虹電子控股集團有限公司 | (ii) | Finance cost — guarantee charge | 9,423 | 6,922 |
| | | Guarantee to suppliers | | |
| | | — Maximum amount granted | 2,230,716 | 1,395,234 |
| | | Sales of goods | — | 13,595 |
| Fellow subsidiaries of the Company | | | | |
| 四川虹信軟件有限公司 | (iii) | Sales of goods | 12,857 | 12,577 |
| | | Purchase of goods | 330 | 755 |
| | | Administrative expenses | | |
| | | — rental expenses | 27 | — |
| 北京長虹科技有限公司 | (iii) | Administrative expenses | | |
| | | — rental expenses | 6,593 | 5,389 |
| | | Other income | 5 | 5 |
| 四川長虹電子系統有限公司 | (iii) | Sales of goods | 79 | — |

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For the year ended 31 December 2021

36. RELATED PARTY DISCLOSURES (Continued)

(a) Related parties transactions (Continued)

| Name of company | Notes | Nature of transaction | 2021 HK\$'000 | 2020 HK\$'000 |
|--|-------|---|----------------------|------------------|
| Fellow subsidiaries of the Company (Continued) | | | | |
| 四川虹微技術有限公司 | (iii) | Sales of goods | 682 | 141 |
| 四川長虹國際酒店有限責任公司 | (iii) | Administrative expense — Rental expense | 2 | — |
| 四川快益點電器服務連鎖有限公司 | (iii) | Sales of goods Other income | 16 — | — 56 |
| 四川長虹物業服務有限公司 | (iii) | Administrative expense — rental expenses | 8 | — |
| 四川愛創科技有限公司 | (iii) | Purchase of goods Sales of goods Selling and distribution expense | 1,827 1,503 38 | 6,652 — — |
| 四川長虹民生物流股份有限公司 | (iii) | Selling and distribution expense — storage fee | 52 | 45 |
| 四川長虹智能製造技術有限公司 | (iii) | Sales of goods | 668 | 1,270 |
| 零八一電子集團有限公司 | (iii) | Sales of goods | — | 139 |
| 四川長虹電子科技有限公司 | (iii) | Sales of goods | 3,892 | 15,540 |
| 四川智易家網絡科技有限公司 | (iii) | Sales of goods | 59 | — |
| 四川長虹智能科技有限公司 | (iii) | Sales of goods Other income | — — | 711 57 |
| 中山長虹電器有限公司 | (iii) | Sales of goods | 34 | 32 |
| 四川泰蒙斯酒店有限責任公司 | (iii) | Administrative expense — Rental expense | 1 | — |
| 四川長虹雲數信息技術有限公司 | (iii) | Sales of goods | 118 | — |
| 四川佳虹實業有限公司 | (iii) | Administrative expense | 5 | — |
| Related company of the Group | | | | |
| 長虹財務 | (iv) | Sales of goods Finance cost — interest of discounted bill | 151 25,151 | 40 19,863 |

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36. RELATED PARTY DISCLOSURES (Continued)

(b) Related parties balances

The Group allows a credit period of 55 days for sales to its related parties. As at 31 December 2021, the Group had the following balances with related parties and the respective aging analysis:

| Name of company | Notes | Nature of transaction | 2021 HK\$'000 | 2020 HK\$'000 |
|--|-------|---|------------------|------------------|
| Immediate and ultimate holding company of the Group | | | | |
| Sichuan Changhong | (i) | Trade and bills receivables Within 30 days | - | 6 |
| | | | - | 6 |
| Fellow subsidiaries of the Company | | | | |
| 四川虹信軟件有限公司 | (iii) | Trade and bills receivables | | |
| | | Within 30 days | 1,380 | - |
| | | 91-180 days | 6,800 | 814 |
| | | 181-365 days | - | 164 |
| | | 8,180 | 978 | |
| 四川長虹電子科技有限責任公司 | (iii) | Trade and bills receivables | | |
| | | Within 30 days | 10 | 10 |
| | | 91-180 days | - | 7,666 |
| | | 181-365 days | - | 4,580 |
| | | 10 | 12,256 | |
| 四川長虹智能製造技術有限公司 | (iii) | Trade and bills receivables 31-60 days | - | 290 |
| 四川長虹雲數字信息技術有限公司 | (iii) | Trade and bills receivables 31-60 days | 115 | - |
| 四川快益點電器服務連鎖有限公司 | (iii) | Trade and bills receivables Within 30 days | 1 | - |
| Total amounts due from related companies — trade and bills receivables | | | 8,306 | 13,530 |
| 長虹財務 | (iv) | Authorised institution deposits | 366,934 | 118,828 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

36. RELATED PARTY DISCLOSURES (Continued)

(b) Related parties balances (Continued)

| Name of company | Notes | Nature of transaction | 2021 HK\$'000 | 2020 HK\$'000 |
|---|-----------|--|------------------|------------------|
| Shareholder of immediate and ultimate holding company of the Company | | | | |
| 四川長虹電子控股集團有限公司 | (ii) (v) | Other payables | 16,189 | 7,310 |
| 四川長虹電器股份有限公司 | (v) | Other payables Contract liabilities | 3,737 2,446 | 5,151 2,287 |
| | | | 6,183 | 7,438 |
| Fellow subsidiaries of the Company | | | | |
| 四川愛創科技有限公司 | (iii) (v) | Trade payables | 119 | 160 |
| 四川虹信軟件股份有限公司 | (iii) (v) | Trade payables | – | 879 |
| 成都長虹電子科技有限責任公司 | (iii) | Contract liabilities | 94 | 91 |
| Total amounts due to related companies | | | 22,585 | 15,878 |

Notes:

- (i) Sichuan Changhong holds approximately 60.13% equity interest of the Company.
- (ii) 四川長虹電子控股集團有限公司 holds approximately 23.22% equity interest of Sichuan Changhong.
- (iii) Sichuan Changhong has controlling interests in these companies.
- (iv) Sichuan Changhong holds 50% equity interests in 長虹財務.
- (v) The amounts are unsecured, non-interest bearing and repayable on demand.

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

Notes to the Consolidated Financial Statements

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36. RELATED PARTY DISCLOSURES (Continued)

(c) Compensation of key management personnel

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

| | 2021 HK\$'000 | 2020 HK\$'000 |
|--------------------------|------------------|------------------|
| Short-term benefits | 26,995 | 23,705 |
| Post-employment benefits | 493 | 324 |
| | 27,488 | 24,029 |

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

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37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

General information of subsidiaries

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

| Name of subsidiaries | Place of incorporation/ registration and operation | Class of shares held | Paid up issued/ registered capital | Proportion ownership interest held by the Company | | | | Proportion of voting power held by the Company | | | | Principal activities |
|--|--|----------------------|------------------------------------|---|--------|------------|--------|--|--------|------------|--------|---|
| | | | | Directly | | Indirectly | | Directly | | Indirectly | | |
| | | | | 2021 % | 2020 % | 2021 % | 2020 % | 2021 % | 2020 % | 2021 % | 2020 % | |
| Changhong (Hong Kong) Enterprises Limited | Hong Kong | Ordinary | HK\$10,001 | – | – | 100 | 100 | – | – | 100 | 100 | Investment holding |
| CHIT 四川長虹佳華信息產品 有限責任公司* | PRC | – | RMB200,000,000 | – | – | 100 | 100 | – | – | 100 | 100 | Provision of professional integrated IT solutions and services and distribution of consumer digital products |
| Changhong IT Digital 四川長虹佳華數字技術 有限公司* | PRC | – | RMB50,000,000 | – | – | 100 | 100 | – | – | 100 | 100 | Provision of professional integrated IT solutions and services and distribution of consumer digital products |
| Beijing Changhong IT Intelligence System Co., Ltd. 北京長虹佳華智能系統 有限公司* | PRC | – | RMB50,000,000 | – | – | 100 | 100 | – | – | 100 | 100 | Provision of professional integrated IT solutions and services and distribution of consumer digital products |
| Changhong IT (Hong Kong) Information Products Co., Limited | Hong Kong | Ordinary | HK\$10,000,000 | 100 | 100 | – | – | 100 | 100 | – | – | Provision of professional integrated IT solutions and services and distribution of consumer digital products |
| Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd. 四川長虹佳華哆啦有貨 電子商務有限公司* | PRC | – | RMB100,000,000 | – | – | 100 | 100 | – | – | 100 | 100 | Provision of professional integrated IT solutions and services and distribution of consumer digital products and others |
| Sichuan Changhong Cloud Computing Company Limited 四川長虹雲計算有限公司 ("雲計算") (Note) | PRC | – | RMB20,000,000 (Note) | – | – | 100 | 100 | – | – | 100 | 100 | Provision of cloud computing services |
| Sichuan Changhong Information Service Co., Ltd. 四川長虹信息服務有限公司* | PRC | – | RMB200,000,000 | – | – | 100 | – | – | – | 100 | – | Provision of professional integrated IT solutions and services and distribution of consumer digital products and others |
| Beijing Changhong IT Information Technology Co., Ltd. 北京長虹佳華信息科技 有限公司* | PRC | – | RMB43,000,000 | – | – | 100 | – | – | – | 100 | – | Provision of professional integrated IT solutions and services and distribution of consumer digital products and others |
| PT Changhong Jiahua Information Technology Indonesia | Indonesia | – | IDR7,000,000,000 | – | – | 100 | – | – | – | 100 | – | Provision of professional integrated IT solutions and services and distribution of consumer digital products and others |

foreign — invested enterprise

* limited liabilities company

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

General information of subsidiaries (Continued)

Note:

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

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

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

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

Composition of the Group

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

| Principal activities | Places of incorporation and operation | Number of wholly-owned subsidiaries | |
|----------------------|---------------------------------------|-------------------------------------|------|
| | | 2021 | 2020 |
| Investment holding | British Virgin Island | 2 | 2 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|------------------|------------------|
| Non-current assets | | |
| Plant and equipment | 47 | 47 |
| Investments in subsidiaries | 1,241,751 | 1,241,751 |
| | 1,241,798 | 1,241,798 |
| Current assets | | |
| Prepayments, deposits and other receivables | 16 | 9 |
| Amounts due from subsidiaries | 29 | 2 |
| Bank balances and cash | 393 | 1,505 |
| | 438 | 1,516 |
| Current liabilities | | |
| Other payables | 3,140 | 4,679 |
| Borrowings | 128,526 | – |
| Tax payable | 35 | 35 |
| Dividend payable | 1,650 | 1,415 |
| Amounts due to subsidiaries | 482,534 | 481,748 |
| | 615,885 | 487,877 |
| Net current liabilities | (615,447) | (486,361) |
| | 626,351 | 755,437 |
| Capital and reserves | | |
| Share capital | 36,366 | 36,366 |
| Convertible preference shares | 27,897 | 27,897 |
| Reserves | 562,088 | 691,174 |
| | 626,351 | 755,437 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

Movements of reserves during both years are as follows:

| | Contributed surplus <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|--|--------------------------|
| At 1 January 2020 | 1,760,883 | (965,315) | 795,568 |
| Loss and total comprehensive expenses for the year | – | (1,573) | (1,573) |
| Dividends recognised as distribution (Note 12) | (102,821) | – | (102,821) |
| At 31 December 2020 | 1,658,062 | (966,888) | 691,174 |
| Loss and total comprehensive expenses for the year | – | (560) | (560) |
| Dividends recognised as distribution (Note 12) | (128,526) | – | (128,526) |
| At 31 December 2021 | 1,529,536 | (967,448) | 562,088 |

Five-Year Summary of Financial Information

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

Results

| | Year ended 31 December | | | | |
|---|------------------------|------------------|------------------|------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 |
| Revenue | 44,558,173 | 40,381,301 | 29,999,669 | 22,098,076 | 21,024,255 |
| Cost of sales | (43,239,733) | (39,302,538) | (29,040,470) | (21,266,681) | (20,255,406) |
| Gross profit | 1,318,440 | 1,078,763 | 959,199 | 831,395 | 768,849 |
| Other income | 67,530 | 68,657 | 52,711 | 46,266 | 27,100 |
| Distribution and selling expenses | (437,078) | (363,873) | (328,253) | (306,008) | (285,494) |
| Administrative expenses* | (267,357) | (223,940) | (196,295) | (159,491) | (142,145) |
| Finance costs | (175,290) | (144,130) | (85,411) | (54,011) | (40,224) |
| Profit before tax | 506,245 | 415,477 | 401,951 | 358,151 | 328,086 |
| Income tax expenses | (92,998) | (70,079) | (112,785) | (88,001) | (83,560) |
| Profit for the year from continuing operations | 413,247 | 345,398 | 289,166 | 270,150 | 244,526 |
| Profit for the year from discontinued operation | – | – | – | – | – |
| Profit for the year | 413,247 | 345,398 | 289,166 | 270,150 | 244,526 |
| Profit for the year attributed to: | | | | | |
| Owner of the Company | 413,247 | 345,398 | 289,166 | 270,150 | 244,526 |
| Non-controlling interests | – | – | – | – | – |
| | 413,247 | 345,398 | 289,166 | 270,150 | 244,526 |

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

Five-Year Summary of Financial Information

| | Year ended 31 December | | | | |
|--|------------------------|------------------|------------------|------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 |
| Profit for the year | 413,247 | 345,398 | 289,166 | 270,150 | 244,526 |
| Other comprehensive income (expense) | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Exchange difference arising from translation of consolidated financial statements to presentation currency | 87,389 | 166,783 | (46,501) | (96,038) | 111,650 |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Exchange difference arising from translation of foreign operations | – | – | – | – | – |
| Other comprehensive income (expense) for the year | 87,389 | 166,783 | (46,501) | (96,038) | 111,650 |
| Total comprehensive income for the year | 500,636 | 512,181 | 242,665 | 174,112 | 356,176 |
| Total comprehensive income attributable to: | | | | | |
| Owners of the Company | 500,636 | 512,181 | 242,665 | 174,112 | 356,176 |
| Non-controlling interests | – | – | – | – | – |
| | 500,636 | 512,181 | 242,665 | 174,112 | 356,176 |

Assets and Liabilities

| | 31 December | | | | |
|-------------------|--------------------|------------------|------------------|------------------|------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 |
| Total assets | 12,471,445 | 10,959,723 | 7,282,721 | 6,047,129 | 4,699,643 |
| Total liabilities | (9,791,185) | (8,651,573) | (5,383,931) | (4,313,888) | (3,063,398) |
| Total equity | 2,680,260 | 2,308,150 | 1,898,790 | 1,733,241 | 1,636,245 |