

长虹佳华
CHANGHONGIT

CHANGHONG JIAHUA HOLDINGS LIMITED

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



ANNUAL REPORT
2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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



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CORPORATE INFORMATION

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| Registered office | Clarendon House 2 Church Street Hamilton HM 11 Bermuda |
| Head office and principal place of business | Unit 1502, 15/F, West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong |
| Bermuda principal share registrar and transfer office | Codan Services Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda |
| Hong Kong branch share registrar and transfer office | Hong Kong Registrars Limited 1712-1716, Hopewell Centre 183 Queen's Road East Hong Kong |
| Principal bankers | The Hongkong and Shanghai Banking Corporation Limited China Insurance Group Building 141 Des Voeux Road Central, Sheung Wan Hong Kong |
| Stock exchange | Growth Enterprise Market of The Stock Exchange of Hong Kong Limited |
| Stock code | 8016 |
| Website | www.changhongit.com.hk |
| E-mail address | LEE@changhongit.com.hk |
| Board of Directors Executive Directors | Mr. ZHAO Yong (Chairman) Mr. ZHU Jianqiu (President) Mr. YU Xiao Mr. WU Xiangtao Ms. SHI Ping |

CORPORATE INFORMATION

| | |
|-------------------------------------|--|
| Independent Non-executive Directors | Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dongfeng Mr. CHENG Yuk Kin |
| Authorised representatives | Mr. ZHU Jianqiu Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS |
| Compliance officer | Mr. ZHU Jianqiu |
| Qualified accountant | Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS |
| Company secretary | Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS |
| Bermuda resident representative | Codan Services Limited |
| Audit Committee | Mr. Jonathan CHAN Ming Sun (Chairman) Mr. Robert IP Chun Chung Mr. SUN Dongfeng Mr. CHENG Yuk Kin |
| Remuneration Committee | Mr. Jonathan CHAN Ming Sun (Chairman) Mr. ZHU Jianqiu Mr. Robert IP Chun Chung Mr. SUN Dongfeng |
| Nomination Committee | Mr. ZHAO Yong (Chairman) Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dongfeng |
| Auditor | Deloitte Touche Tohmatsu 35/F, One Pacific Place 88 Queensway, Admiralty Hong Kong |

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZHAO Yong, aged 54, joined the Company as an executive Director and the chairman of the Board in April 2013. Mr. Zhao serves in various positions within the Sichuan Changhong Electronics Group (i.e. Sichuan Changhong Electronics Holding Group Company, Limited and its subsidiaries) and also served as the deputy mayor of Mianyang, Sichuan Province, the People's Republic of China (the "PRC") from June 2001 to June 2004. He is also the chairman and director of the Company's subsidiaries of Changhong IT Information Products Company Limited ("Changhong IT"), Changhong IT Digital Technology Co., Ltd. ("Changhong IT Digital"), Beijing Changhong IT Intelligence System Co., Ltd ("Changhong IT Intelligence"). and Sichuan Changhong IT Duolayouhuo E-Commerce Co., Ltd. ("Duolayouhuo"). He holds a Master Degree in Mechanical Engineering and a Doctoral Degree in Engineering and Thermal Dynamics Engineering from Qinghua University in the PRC and has more than 24 years of experience in general management.

Mr. ZHU Jianqiu, aged 55, joined the Company as an executive Director and the president of the Company in April 2013. Mr. Zhu is also the director and chief executive officer of each of the following subsidiaries of Changhong IT, Changhong IT Digital, Changhong IT Intelligence, Changhong IT (Hong Kong) Information Products Co., Ltd. ("Changhong IT Information"), and Duolayouhuo, and the executive director of Changhong (Hong Kong) Enterprises Limited. Mr. Zhu is responsible for the overall operation and management of the Group (to be defined below). He obtained a Doctoral Degree in Economics from Renmin University and a Bachelor Degree in 1984 from Northeast University in the PRC and has more than 19 years of experience in information technology ("IT") industry management.

Mr. YU Xiao, aged 49, joined the Company as an executive Director and Chairman in November 2006. Mr. Yu remains as a Director and is responsible for overseeing the strategies and directions of the Group. He holds a Bachelor Degree in Economics with major in National Economic Management from Sichuan University in the PRC and has more than 26 years of experience in financial and economic management.

Mr. WU Xiangtao, aged 43, joined the Company as an executive Director and Deputy Managing Director in May 2008. Mr. Wu remains as an executive Director and is responsible for the strategies of the Group's trading business of consumer electronic products. He holds a Master Degree in Business Administration from Southwestern University of Finance and Economics and a Bachelor Degree in International Trade and Economics from Shandong University in the PRC and obtained a Master Degree in Business Administration from University of Glasgow, United Kingdom ("UK") in 2011. He has more than 20 years of experience in the consumer electronics industry.

Ms. SHI Ping, aged 55, joined the Company as an executive Director in May 2007. Ms. Shi is principally responsible for the investment and business merger of the Group. She obtained a Master Degree in Managerial Economics from Nanyang Technology University in Singapore, a Master Degree in Industrial Management Engineering from Chengdu University of Science and Technology and a Bachelor Degree in Chemical Engineering from Hunan University in the PRC and has more than 31 years experience in economics and engineering management.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan CHAN Ming Sun, aged 45, 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 has also been acting as the independent non-executive director of each of the following listed companies on the Stock Exchange, namely Shenyang Public Utility Holdings Company Limited (stock code: 747), Far East Holdings International Limited (stock code: 36), China Dredging Environment Protection Holdings Limited (stock code: 871) and Hao Tian Development Group Limited (stock code: 474). He was also an independent non-executive director of L & A International Holdings Limited (stock code: 8195), a company listed on the Stock Exchange, during the period from 25 September 2014 to 3 March 2017. He obtained his Bachelor Degree of Commerce in Accounting and Computer Information System from University of New South Wales, Australia. He is also a fellow member of the Hong Kong Institute of Directors and a member of Hong Kong Institute of Certified Public Accountants and CPA, Australia. He has over 18 years of experience in investment and corporate finance.

Mr. Robert IP Chun Chung, aged 60, joined the Company as an independent non-executive Director in February 2007. Mr. Ip is a member of each of the audit committee, remuneration committee and nomination committee of the Company. He is a practising solicitor in Hong Kong and is a non-executive director of Poly Property Group Co., Limited (stock code: 119), a company listed on the Stock Exchange. He was also an independent non-executive director of Value Convergence Holdings Limited (stock code: 821), a company listed on the Stock Exchange, during the period from 5 March 2012 to 7 October 2016. He obtained the Bachelor Degree in Arts from University of Hong Kong and held a CPE Diploma and Diploma in Law from the College of Law, UK. He is also a member of the Law Society of Hong Kong and the Law Society of England and Wales. He has over 35 years of experience in legal aspects.

Mr. SUN Dongfeng, aged 49, joined the Company as an independent non-executive Director in February 2007. Mr. Sun is a member of each of the audit committee, remuneration committee and nomination committee of the Company. He is a senior partner of Guantao Law Firm as well as a legal advisor for a number of companies. He graduated from China University of Political Science and Law in the PRC, and obtained a Master Degree of Law in International Economics from the School of Law of University of Canberra, Australia. He has over 24 years of experience in legal aspects.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. CHENG Yuk Kin, aged 42, joined the Company as an independent non-executive Director in November 2012. Mr. Cheng is a member of the audit committee of the Company. He is the managing director of Luk Fook Capital (HK) Limited and is an independent non-executive director of On Real International Holdings Limited (stock code: 8245), a company listed on the Stock Exchange. He obtained his Bachelor Degree of Business Administration in Finance from Hong Kong University of Science and Technology and obtained a Master Degree of Business Administration from the George Washington University School of Business in United States of America ("USA"). He is also a member of American Institute of Certified Public Accountants. He has over 20 years of experience in corporate finance and audit.

SENIOR MANAGEMENT

Ms. SU Huiqing, aged 48, is the vice president of each of the Company, Changhong IT, Changhong IT Digital, Changhong IT Intelligence and Changhong IT Information. Mr. Su is responsible for the management of human resources, operation and administrative of the Group. She holds a Bachelor Degree in Automation from Shanghai Jiaotong University and has more than 25 years of experience in business development in the IT industry.

Mr. ZHAO Qilin, aged 42, is the financial controller of the Company and is responsible for the financial and accounting management and internal control of the Group. Mr. Zhao is also an executive director of Changhong (Hong Kong) Enterprises Ltd.. He is the secretary of Board of Changhong IT, Changhong IT Digital, Changhong IT Intelligence and Duolayouhuo. These are subsidiary of the Company. He holds a Bachelor Degree in Economics from Southwestern University of Finance and Economics in the PRC and has more than 10 years of experience in accounting and financial management.

Mr. LEE Wing Lun, aged 58, is the qualified accountant and company secretary of the Company and is responsible for the financial and accounting management and secretarial affairs of the Company. Also Mr. Lee is an independent non-executive director of Vinco Financial Group Limited (stock code: 8340). He graduated from Australian National University with a Bachelor Degree in Commerce and obtained a Master Degree of Corporate Governance and Postgraduate Diploma in Corporate Administration from Polytechnic University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, the CPA Australia, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. He has over 22 years of working experience in auditing, accounting and finance matters including over 6 years in several audit firms and has been the financial controller of a trading group.

Save as disclosed in this paragraph, as at 31 December 2016, non of directors /senior management holds any position within the Group.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2016, the entire business operation of the Company and its subsidiaries (collectively, the "Group") remained stable despite slow recovery of the global economy and the unstable regional economic and political environment.

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2016 was approximately HK\$19,063.25 million (excluding discontinued operation, 2015: HK\$19,839.11 million), representing a decrease of 3.91% as compared with the previous year. The Group achieved stable operation during the year ended 31 December 2016, and such decrease was mainly attributable to the impact of RMB exchange rate depreciation.
- Profit for the year ended 31 December 2016 was approximately HK\$232.77 million (2015: HK\$131.75 million) and total comprehensive income for the year ended 31 December 2016 was approximately HK\$134.37 million (2015: HK\$56.95 million). These increases were mainly attributable to (i) the relatively lower net profit attributable to equity holders of the Company for the year ended 31 December 2015 as compared to that for the year ended 31 December 2016 due to the provision made for the Group's discontinued operations relating to the misappropriation of assets by an ex-employee of Changhong Overseas Development Limited ("CHOD") for the year of 2015; and (ii) the improvement of operational efficiency as a result of the Group's further control over its operational costs.

BUSINESS REVIEW

2016 BUSINESS REVIEW

In 2016, with the slowing down of global economic growth, the economic recovery remained slow and unsteady and the situation of reverse economic globalization trend intensified. Under the background of global economic recession, despite the complicated economic situation in China, its financial economy still operated steadily. The economic structure was further optimized and the digitalized economy boosted the rapid development of new industries and new business models. In view of the mixed market performance in the PRC IT market and the weak demand for traditional hardware products, new applications based on big data, cloud computing and mobile internet facilitated the continuous industry development. In 2016, by adhering to the guideline of "focusing on optimization, targeting on high efficiency, and achieving new development" and following the market, product and channel evolution trends, the Group made active adjustments to its operating strategies and developed traditional distribution business steadily. We further optimized our overall management with significant improvement in operational efficiency. Substantial progress was achieved in new business opportunities including big data exploration, cloud services and internet marketing platforms.

CHAIRMAN'S STATEMENT

In 2016, the Group recorded revenue of approximately HK\$19,063.25 million, representing a decrease of 3.91% as compared with that in the corresponding period of the last financial year due to the impact of the RMB exchange rate depreciation. The gross profit margin in 2016 was 3.97%, representing a decrease of approximately 0.11 percentage points as compared with that in the corresponding period of the last financial year, which was mainly due to intense market competition and the increase in contribution from the sale of product lines with relatively lower gross profit margins. In 2016, profit attributable to shareholders amounted to approximately HK\$232.77 million, representing an increase of approximately 76.68% as compared with that in the corresponding period of the last financial year, and basic earnings per share amounted to HK9.06 cents, representing an increase of approximately HK3.93 cents as compared with HK5.13 cents in the corresponding period of the last financial year. The increase in consolidated profit was mainly attributable to the fact that (i) a provision was made in 2015 for the Group's discontinued operations in relation to the misappropriation of assets by a former employee of CHOD, resulting in a relatively lower profit attributable to equity holders of the Company for 2015 as compared with that for the year ended 31 December 2016; and (ii) the operational efficiency was improved due to the Group's further control on operating costs.

In 2016, the Group continued to strengthen its risk management and control, reinforced accounts receivables collection, carried out detailed inventory management, allocated funds rationally, maintained sufficient working capital and accelerated assets turnover. At the same time, the Group strengthened inter-departmental collaboration and work innovation and optimization, thereby improving the operational efficiency and led to a year-on-year decrease in overall expenses.

IT consumer products distribution business: revenue in this segment decreased by 26.53% to approximately HK\$9,803.34 million as compared with the corresponding period of last year, whilst its profit decreased by 17.53% to approximately HK\$183.62 million. The channel sales were less than expected due to the overall shrinkage of the personal computer market. In order to control market risks, the Group adjusted product mix timely, focused on expanding advantageous market segments and promoted sales in the regions of fourth to sixth tier cities, while maintaining stable market shares.

IT corporate products distribution business: revenue in this segment increased by 3.32% to approximately HK\$4,972.01 million as compared with the corresponding period of last year. Profit in this segment increased by 3.97% to approximately HK\$231.89 million. By relying on the independent controllable products series and integrating the global leading data solutions, this segment focused its efforts on the basic software integration and industry application software development, and continued to promote industry solution and technology solution with cloud computing and big data comprehensive services and the integration and promotion of proprietary equipment so as to achieve a healthy development of business.

CHAIRMAN'S STATEMENT

Other business: revenue in this segment increased by 154.73% to approximately HK\$4,287.89 million as compared with the corresponding period of last year and profit in this segment increased by 19.95% to approximately HK\$42.65 million as a result of the expansion of channel sales of smartphones.

To enhance trading liquidity in the ordinary shares of the Company (the "Shares") and to promote the Company's corporate image to public investors, the Company submitted an application for the transfer of listing of the Shares from the GEM to the Main Board of the Stock Exchange (the "Application") to the Stock Exchange on 28 April 2015 and 6 November 2015 respectively. The Application lapsed on 6 May 2016 and no re-submission has been made at this stage. For further details, please refer to the announcements of the Company dated 28 April 2015, 6 November 2015 and 6 May 2016. The Company may make re-submission as and when the Board considers appropriate and further updates will be provided by the Company from time to time as and when appropriate.

In 2015, the management of CHOD reported to the Board that a former employee of CHOD had misappropriated certain assets of CHOD and the case was reported to the Hong Kong Police on 14 June 2015 (the "Incident"). The Incident had a material adverse impact on the financial position of the CHOD. An independent committee has been established to investigate the Incident. As at the latest practicable date prior to the printing of the report, most claims/suits have been settled between the purported suppliers and CHOD and only negotiation with one purported supplier was still continuing but no further action has been taken by that particular supplier. For further details, please refer to the announcements of the Company dated 15 June 2015, 19 June 2015, 20 July 2015 and 19 October 2015. Further updates will be provided by the Company from time to time as and when appropriate. The Company has ceased the business segment of trading consumer electronic products since July 2015 after the business discontinuation of CHOD following an internal review of the Company in June 2015. On 14 December 2016, the Company entered into an agreement with a third party to dispose CHOD. For details, please refer to the announcement of the Company dated 14 December 2016.

On 13 April 2016, Mr. Tang Yun tendered his resignation as an executive Director with effect from 13 April 2016 as Mr. Tang Yun would like to devote more time to his other business commitments. For further details, please refer to the announcement of the Company dated 13 April 2016.

CHAIRMAN'S STATEMENT

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2016, the Group's financial and liquidity positions remained healthy and stable. As at 31 December 2016, the aggregate outstanding borrowings of the Group were approximately HK\$315.07 million (2015: HK\$524.93 million), which were partially unsecured and interest bearing. The decrease in the Group's borrowings was due to the repayment of loans during the year ended 31 December 2016 as the Group's financial position was continuously improving. The Group's cash and bank balances amounted to approximately HK\$307.40 million, together with trade and bills receivables amounting to approximately HK\$1,400.83 million. For the year ended 31 December 2016, the Group's net current assets amounted to approximately HK\$1,323.90 million and the Group did not have any charges on its fixed assets (2015: Nil). The net gearing ratio (total net debt/total shareholders' equity) of the Group as at 31 December 2016 was 1.81 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.

The Group's monetary assets and liabilities and transactions are principally denominated in Renminbi, Hong Kong dollars and United States dollars. As the spread of exchange rate of Renminbi is locked 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 Company will however continue to monitor the situation and assess whether any hedging arrangement is necessary.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2016, the total number of the Group's staff was 1,203 (2015: 1,139 staff). Total staff costs (including Directors) amounted to approximately HK\$236.22 million for the year ended 31 December 2016. 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 2016, there were no outstanding share options granted or exercised as the share option scheme previously adopted by the Company had expired.

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

CHAIRMAN'S STATEMENT

CAPITAL STRUCTURE

The Group manages its capital structure to ensure optimal structure and shareholder returns, and uses its capital to promote its business development, ultimately increasing revenue and margins in the IT consumer and corporate distribution business. Further capital may be used to increase its business diversification.

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

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

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

On 14 December 2016, the Company entered into a share transfer agreement (the "Share Transfer Agreement") with Mr. He Tao ("Mr. He"), an independent third party, pursuant to which the Company agreed to dispose of, and Mr. He agreed to acquire, the entire issued share capital of CHOD at a consideration of HK\$100 (the "Disposal"). As disclosed above, a former employee of CHOD had misappropriated certain assets of CHOD. Pursuant to the terms of the Share Transfer Agreement, the Company agreed to continually support CHOD's loss recovery proceedings and provide an amount up to HK\$2.00 million to CHOD to cover the expenses incurred by CHOD for pursuing the loss recovery proceedings. If the relevant expenses incurred by CHOD exceed HK\$2.00 million, the excess amount of such expenses shall be borne by Mr. He. Upon completion of the Disposal on 21 December 2016, CHOD ceased to be a direct wholly-owned subsidiary of the Company and its financial results are no longer consolidated into the financial results of the Group. For details of the Disposal, please refer to the announcement of the Company dated 14 December 2016.

Save as disclosed above, the Company did not have any other significant investments, acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2016.

CHAIRMAN'S STATEMENT

EVENTS AFTER 31 DECEMBER 2016

Establishment of a wholly-owned subsidiary

In order to promote the strategic transformation of the Group, provide a one-stop internet distribution platform for customers and assist distributors and retailers to transform towards "Internet+" in the PRC, the Company resolved to establish a wholly-owned subsidiary named Sichuan Changhong IT Duolayouhuo E-commerce Co., Ltd. ("Duolayouhuo") with a capital contribution of RMB100 million on 23 February 2017. Duolayouhuo was established on 9 March 2017 and is expected to engage in, among other things, wholesale and retail of electronic products, computer hardware and software, communication equipment; provision of computer technology consulting services and e-commerce services; and development, design and application of computer software. For further details in relation to the establishment of Duolayouhuo, please refer to the announcement of the Company dated 23 February 2017.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING

The Group will continue to devote to the IT distribution business and IT integrated 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 2016, the Group did not have any material contingent liabilities.

OUTLOOK

Going forward, in 2017, the global economy is expected to continue the slow recovery trend. The development environment and conditions both domestically and abroad will be more complicated and volatile along with increasing uncertainties. The PRC economy will further promote supply-side reforms with a stable economic development in general. As driven by such favorable policies including Internet+ and industry 4.0, along with the further enhanced integration of informatization and industrialization, urbanization and agricultural modernization, the informatization during the "Thirteenth Five-year" period will remain the important engine for the PRC economic transformation and development, and the new generation of IT including cloud computing, big data, Internet of Things and mobile internet application will continue to penetrate into various industries and achieve integrated development. Through the formulation of the "new thinking, new measures and new heights" guidelines in 2017, the Group will have an insight into new changes in politics, economy and industry, position itself as a leading industry player, and adopt new thinking and new methods in terms of business development and operational management, whereby enabling the Group to achieve a new dimension and height in terms of corporate mission, development strategy, culture construction, management standard and core competence, creating new success once again, and continuing to create new values for the Shareholders.

CHAIRMAN'S STATEMENT

PRINCIPAL RISKS AND UNCERTAINTIES FACED BY THE COMPANY

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

Business Risk

The business of the Group is highly dependent on the overall financial condition of the PRC and is affected by seasonality factors. Any market downturn in China generally may adversely affect the Group's business, results of operations and financial position. 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.

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.

Foreign Currency Risk

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

ZHAO Yong

Chairman

31 March 2017

CORPORATE GOVERNANCE REPORT

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules which sets out corporate governance principles and code provisions (the "Code Provisions"). Throughout the year ended 31 December 2016, the Company has complied with all the Code Provisions as set out under the CG Code, save for the deviations of Code Provision E.1.2 as provided below:

Code Provision E.1.2

Pursuant to E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting. However, Mr. Zhao Yong was unable to attend the annual general meeting of the Company held on 19 May 2016 due to other prior engagements.

COMMUNICATION WITH SHAREHOLDERS

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

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

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

BOARD OF DIRECTORS AND MANAGEMENT

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

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

CORPORATE GOVERNANCE REPORT

The Board currently comprises 9 members and their positions are as follows:

Executive Directors

Mr. ZHAO Yong (Chairman)
Mr. ZHU Jianqiu (President)
Mr. YU Xiao
Mr. WU Xiangtao
Ms. SHI Ping

Independent Non-Executive Directors

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

The Directors have disclosed to the Company their positions held in other public companies, organizations or their associate & companies. The information regarding their directorships in other public companies is set out in the biographies of Directors and senior management on pages 5 to 7 of this annual report and on the Company's website. To ensure timely disclosure of any change of personal information, the Company has established a specific communication policy to handle the changes. There is no financial, business, family or other material relationships among members of the Board and all Directors have no business relationship with the Group.

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

The Company and its Directors (including independent non-executive Directors) entered into a fixed-term service contract which is renewable automatically per annum. All Directors are subject to retirement by rotation and be eligible to offer for re-election at forthcoming annual general meeting of the Company (the "AGM"). The Company has also received acknowledgements from the Directors of their responsibility for preparing the financial statements and a representation by the auditors in relation to their reporting responsibilities.

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

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

Board meetings are held at least once a quarter and during any given financial year when necessary. During the year ended 31 December 2016, the Board met on 14 occasions and the details of the attendance of the Directors at the respective meetings were as follows:

| Name of Directors | Annual general meeting/ Special general meeting | Board meeting | Audit Committee meeting | Nomination Committee meeting | Remuneration Committee meeting |
|---|--|---------------|-------------------------|------------------------------|--------------------------------|
| Executive Director | | | | | |
| Mr. ZHAO Yong | 0/1 | 4/14 | N/A | 0/0 | N/A |
| Mr. ZHU Jianqiu | 1/1 | 14/14 | N/A | N/A | 1/1 |
| Mr. YU Xiao | 1/1 | 5/14 | N/A | N/A | N/A |
| Mr. TANG Yun (resigned on 13 April 2016) | 0/1 | 1/14 | N/A | N/A | N/A |
| Mr. WU Xiangtao | 1/1 | 11/14 | N/A | N/A | N/A |
| Ms. SHI Ping | 1/1 | 10/14 | N/A | N/A | N/A |
| Independent Non-Executive Director | | | | | |
| Mr. Jonathan CHAN Ming Sun | 1/1 | 11/14 | 7/7 | 0/0 | 1/1 |
| Mr. Robert IP Chun Chung | 1/1 | 12/14 | 7/7 | 0/0 | 1/1 |
| Mr. SUN Dongfeng | 1/1 | 13/14 | 7/7 | 0/0 | 1/1 |
| Mr. CHENG Yuk Kin | 1/1 | 13/14 | 6/7 | N/A | N/A |

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

The chairman of the Board invited the chairman of the Audit Committee, Remuneration Committee, Nomination Committee or their delegates to attend the annual general meeting of the Company and to respond to any enquires at the annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

TRAINING

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

Pursuant to Code Provision A.6.5 of CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in appropriate continuous professional development activities by attending training courses on the topics related to corporate governance and regulations which were provided by a hired law firm/regulatory authorities or by reading materials relevant to the Company's business or to their duties and responsibilities. The training requirements for the Company Secretary according to Rule 5.15 of the GEM Listing Rules has been complied with for the year ended 31 December 2016.

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 2016 is recorded in the table below.

| | Reading regulatory updates | Training courses provided by hired law firm/regulatory authorities |
|--|----------------------------|--|
| Executive Directors | | |
| Mr. ZHAO Yong | ✓ | ✓ |
| Mr. ZHU Jianqiu | ✓ | ✓ |
| Mr. YU Xiao | ✓ | ✓ |
| Mr. TANG Yun (resigned on 13 April 2016) | ✓ | ✓ |
| Mr. WU Xiangtao | ✓ | ✓ |
| Ms. SHI Ping | ✓ | ✓ |
| Independent Non-executive Directors | | |
| Mr. Jonathan CHAN Ming Sun | ✓ | ✓ |
| Mr. Robert IP Chun Chung | ✓ | ✓ |
| Mr. SUN Dongfeng | ✓ | ✓ |
| Mr. CHENG Yuk Kin | ✓ | ✓ |
| Company Secretary | | |
| Mr. LEE Wing Lun | ✓ | ✓ |

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE

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

During the year ended 31 December 2016, Mr. ZHAO Yong acted as chairman of the Board and Mr. ZHU Jianqiu acted as president of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors is appointed for a twelve-month term, which is renewable automatically with a fixed amount of remuneration per annum. Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng have served the Group for more than nine years. Pursuant to Code Provision A.4.3 of the CG Code, (a) an independent non-executive Director having served the Company for more than nine years could be relevant to the determination of an independent non-executive Director's independence; and (b) if an independent non-executive Director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by Shareholders and the papers to Shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected. The re-election of each of Mr. Johnathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng as an independent non-executive Director was approved by the Shareholders at the annual general meeting of the Company held on 19 May 2016. For details of the reasons why the Board believes each of Mr. Johnathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng is still independent and should be re-elected, please refer to the circular of the Company dated 30 March 2016.

All independent non-executive Directors have confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers them to be independent.

BOARD COMMITTEES

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

AUDIT COMMITTEE

Membership

The members of the Audit Committee are Mr. Jonathan CHAN Ming Sun (Chairman), Mr. Robert IP Chun Chung, Mr. SUN Dongfeng and Mr. CHENG Yuk Kin. All members are independent non-executive Directors and have several years of experience and appropriate professional qualifications to fulfill their duties.

CORPORATE GOVERNANCE REPORT

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 2016, the Audit Committee mainly performed the following duties:

- reviewed the Group's unaudited quarterly and interim results for the three months ended 31 March 2016, the six months ended 30 June 2016 and the nine months ended 30 September 2016 and the audited annual results for the year ended 31 December 2016, met with the external auditors to discuss such quarterly, interim and annual results without the presence of the Company's management, 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;
- assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management; and
- assessed the impact on the Group in respect of the Incident of the misappropriation of assets of CHOD with reference to a report prepared by an independent accountant.

During the year ended 31 December 2016, the Audit Committee held seven meetings and the details of attendance was set out on page 18 of this report. The annual results for the year ended 31 December 2016 had been reviewed by the Audit Committee.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

Membership

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

Responsibilities

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

During the year ended 31 December 2016, 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 2016.

During the year ended 31 December 2016, the Remuneration Committee held a meeting and the details of attendance was set out on page 18 of this report.

NOMINATION COMMITTEE

Membership

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

Nomination Procedure

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.

CORPORATE GOVERNANCE REPORT

The Board has also adopted a board diversity policy. The purpose of the board diversity policy is to set out the basic principles to be followed to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance.

Responsibilities

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

During the year ended 31 December 2016, 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 2016.

The Board has the authority to determine the appointment while the Nomination Committee acted as advisor. During the year ended 31 December 2016, the Nomination Committee did not hold any meeting and the details of attendance was set out on page 18 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 2016, the Board regularly reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and the senior management of the Group, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the required standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

REMUNERATION, APPOINTMENT AND ROTATION OF DIRECTORS

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

CORPORATE GOVERNANCE REPORT

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

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

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.

Senior management emoluments for the year ended 31 December 2016

| | Salaries and allowances <i>HK\$'000</i> | Retirement benefits scheme contributions <i>HK\$'000</i> | Performance related incentive payments <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------------|--|---|---|--------------------------|
| Mr. Lee Wing Lun | 580 | 18 | 55 | 653 |
| Ms. Su Huiqing | 548 | 85 | 3,569 | 4,202 |
| Mr. Dong Qiang (<i>Note 1</i>) | 211 | 28 | 44 | 283 |
| Mr. Rong Dong (<i>Note 2</i>) | 196 | 8 | 31 | 235 |
| Mr. Zhao Qilin | 440 | 18 | 36 | 494 |
| | <u>1,975</u> | <u>157</u> | <u>3,735</u> | <u>5,867</u> |

Note:

- (1) On 23 March 2016, Mr. Dong Qiang tendered his resignation with effective on 31 March 2016.
- (2) Mr. Rong Dong tendered his resignation with effective on 13 April 2016.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITOR

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

During the year ended 31 December 2016, 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\$1,966,000 and the fee paid for other assurance services amounted to HK\$200,000 for the year ended 31 December 2016.

SHINEWING, as the external auditor of the Company for the year ended 31 December 2015 attended the 2015 annual general meeting of the Company to respond to any enquiries about the conduct of the audit, the preparation and content of the independent auditor’s report and the auditor’s independence.

Save as disclosed above, there was no change in auditors of the Company in any of the preceding three years.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board conducts regular reviews on the effectiveness of the risk management and internal control systems on at least an annual basis to ensure that the operation of the Company is legal, the assets of the Company are safeguarded and the financial information that the Company relies on for the operation of its business or for the release to the public are accurate and reliable. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The management of the Group is responsible for establishing and maintaining the risk management and internal control systems for financial reporting. The Company has established a stringent internal control system for financial reporting to eliminate the risks of misstatement, omission and fraud in financial reporting. Meanwhile, with reference to external regulatory requirements, the Company’s business development and the internal management procedures, the Company has reviewed the effectiveness of the internal control system for business strategy, finance, operations, marketing, legal compliance and other areas. The Company has established a comprehensive risk management system which integrates internal control and risk management system for the control of business operations with high risks. The Company also conducted assessment on the effectiveness of its internal control and risk management systems for the year ended 31 December 2016. 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.



CORPORATE GOVERNANCE REPORT

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

CONTINUOUS EVOLVEMENT OF CORPORATE GOVERNANCE

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

CORPORATE MISSION

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

CORPORATE GOVERNANCE REPORT

CORPORATE VISION

- To become a remarkable IT integrated 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 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 the transformation model of “platform + value added” and become an integrated service provider in the professional sectors of professional IT enterprise distribution, big data and cloud computing, forging our core competitive edge and achieving the strategic transformation of our business.

For the professional IT solutions service and product distribution sector, the Group is committed to becoming a distributor with the biggest market share among the partners of domestic leading big data integrated service providers and manufacturers. For the location-based seervices (“LBS”) and Big Dipper application business sector, the Group is a renowned provider in the industry in terms of its products, solutions and services and is committed to promoting product innovation of vehicle networking and home Internet of Things application as well as Big Dipper civil industrial application, so as to provide location-based service products and related application solutions for users at enterprise level.

CORPORATE GOVERNANCE REPORT

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.

COMPLIANCE MANAGEMENT

The Group is 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 Peoples Republic of China 《中華人民共和國公司法》, Contract Law of the People's Republic of China 《中華人民共和國合同法》 and Labor Contract Law of the People's Republic of China 《中華人民共和國勞動合同法》. Compliance procedures are in place to ensure adherence to the applicable laws, rules and regulations. The Group has complied with the 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.

EMPLOYMENT AND LABOUR PRACTICE

Employment

By focusing on the implementation of value creation and targeting at transparent performance and systemic management, the Group implements the scientific and fair performance management approach to secure the separation and implementation of its overall strategic goals at every segment, while maximizing the innovation and development of personal potential and talents to guide the constant growth of its staff. The Group determines staff remuneration with reference to the salary standard of industry peers in the market to enable staff to receive market-competitive remuneration according to their years of service, job functions and performance.

In order to motivate staff to achieve the strategic business objectives efficiently, stimulate their working passion and create positive working atmosphere, the Group conducts the selection and appraisal activities of "excellent staff" and "collaboration star" every year, with an aim of giving public recognition to those outstanding staff in the sales, technology, sales support, platform service and cross-functional collaboration.

CORPORATE GOVERNANCE REPORT

At the beginning of every year, the Group convenes large annual carnival show, which will be undertaken by employees from show planning to its performance, providing a platform for staff to exhibit their capabilities and talents. The Group organizes monthly birthday parties to enable new staff of different departments to integrate into our big family more quickly. Furthermore, the Group also organizes a variety of employee-care activities irregularly, these activities include Chinese medicine treatments within the office, weekend leisure activities, wealth management knowledge seminars, match-making parties, agency services for park annual tickets, bringing different welfare experience to our employees from different aspects of work and life.

The Group has been awarded the 2016 best employer nomination award appraised by zhaopin.com.

Health and safety

The Group is people-oriented, and strives to provide caring welfare and care for employees. In addition to statutory benefits, the Group sets up a number of special benefits, including free annual physical examination, meal, transportation and communication subsidies, special subsidy funds for severe illness, travel accident insurance for staff, public first-aid kits, condolence funds for marriage and childbirth of staff.

The Group puts great emphasis on safety and environmental management, follows the “prevention first” working guideline and adopts a number of measures including swiping card for access and exit, visitor registration, safety patrolling and network monitoring to safeguard its corporate normal operation order. The Group regularly conducts fire knowledge publicity and fire drills and posts security warning tips, in order to enhance the safety and environmental awareness of employees.

Development and training

The Group strives to provide a good growing environment, equitable appraisal mechanism and open position transfer opportunities for employees, to achieve the win-win situation for employees’ development and the development of the Company. In 2016, according to the H-PTCP (High-Potential Talent Cultivation Program) Project, the Group conducted candidate appraisal through scientific management capability evaluation means and issued professional evaluation report, whereby providing an effective reference for cultivating and developing of our internal talents with high potential.

In 2016, the Group designed and conducted an innovative form of training activity – “Bingo Grid Game”, whereby achieving the working objectives of resources integration and knowledge sharing from the organization’s perspective, and improving personal learning willingness significantly from passive to active from the employees’ perspective, allowing staff to have extensive recognition for the benefits from learning.

CORPORATE GOVERNANCE REPORT

In 2016, the Group increased its recruited internal trainers to 48, with internal training programs covering various aspects like general, sales, finance, human resources, legal, product, technology, management, procurement, logistics and operation. During the year ended 31 December 2016, there were altogether 241 internal training sessions with 3,500 employee participants. In 2016, a total of 166 new employees had participated in the on-the-job special training with 100% satisfaction rate and examination passing rate of 100%. In addition to in-class teaching, the Group also added other learning communication methods including distant video, “book-sharing club”, ““Jia talk” work highlights sharing”, helping employees to escalate learning interests and improve professional capabilities. At the same time, the education and training fund established by the Group since the beginning of 2008 has been running fine, providing stable and more personalized and targeted training solutions for our employees in the long term.

Labour standard

The Group is in compliance with the Labor Contract Law 《勞動合同法》 of China, Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and the relevant laws and regulations, pursuant to which employees are entitled to social insurance, housing provident fund, paid annual leave and other statutory benefits, and female employees are entitled to prenatal examination, maternity and nursing leave. Respecting human rights, the Group insists on equality employment, prohibits child labor and other forced labor as well as discrimination due to factors like religion and gender and implements same pay for same work stringently.

OPERATION PRACTICE

Upstream and downstream collaboration and operation management

As the PRC agent of numerous international renowned IT suppliers, the Group conducts extensive cooperation with suppliers to provide international leading products and solutions to channel partners. Through formulating a series of procurement policies including procurement principles, procurement methods and procurement monitoring mechanism, the Group achieves a centralized and unified comprehensive planning of procurement.

For enterprise level segment, based on the distribution of its products and relying on its own technology, resources integration and service capabilities, the Group has built a platform of applications. The Group organically integrates its products into a variety of technology and industry solutions, while providing technical support, consulting, training, qualification certification, and other value-added services, striving to become a domestic leading big data integrated service provider. The Group owns a domestic leading cloud computing experience and training center and allies with numerous renowned manufacturers to mutually provide the channel partners with solutions including data, virtualization and disaster recovery respectively, as well as the one-stop service including market consultancy and technical support, thereby facilitating closer cooperation between manufacturers and integrators.

CORPORATE GOVERNANCE REPORT

For consumer level segment, the Group profoundly grasps the market and customer demand and owns nearly 10,000 core agents to build a channel system covering nationwide. Through maintaining a stable and long-term cooperation with manufacturers and core agents and fully ensuring the interests of all parties in the supply chain, the Group has formed a good distribution system. Meanwhile, the Group provides a good service guarantee by relying on the efficient operating platform and logistics system. The Group helps manufacturers to launch their products to the market rapidly by leveraging on its professional marketing capabilities. With unique marketing mix model, the Group integrates the products organically under its agency, with an aim to help partners to satisfy the demand of users at different levels, provide all-round solutions to cooperating partners, grow together with partners and achieve the win-win situation among many parties.

For its brand LBS segment, the Group owns the design, development and production capabilities of hardware terminal and possesses various integrated solutions based on location-based service platform and has established strategic cooperation with mobile operators and domestically well-known automotive and value-added service corporations to provide business-to-business customized services to enterprises and corporate clients. At present, the Company has established a comprehensive system from research and development, production to marketing and after-sales service and passed the TS16949 and ISO9001 quality certification system. It is committed to Big Dipper civil industrial application to provide high quality, stable and user-friendly location-based service products and the related application solutions for users at enterprise level while promoting the innovation of vehicle networking and home Internet of Things application product segment.

Anti-corruption

The Group formulated a number of rules and systems including Honest Management System 《廉潔管理制度》 and Code of Supervision on Staff Independence 《員工獨立性監管守則》 to regulate our employees' behavior in economic activities, maintain the objectivity, impartiality and synergy of the Company's business activities, avoid business operation risks and prevent all kinds of conflicts of interest, secure the Company's reputation as well as interests of the Company and customers, and build a sound ordered market.

Community

Responding to the pledge of the government to employ disabled persons, the Group kick-started the disabled recruitment project officially in 2016 and gave preference to offering employment opportunities to disabled persons nearby the community and one disabled person was successfully recruited. In 2017, the Group will set up disabled special positions in the administration, personnel, finance and sales management departments and accept disabled persons who are eligible to join us, thus achieving recruitment of disabled persons. The Group has been approved as Beijing College Graduates Employment Internship Base since 2015.

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 2016.

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 35 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2016 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 14 of this annual report. An analysis of the Group's performance during the year ended 31 December 2016 using financial key performance indicators is set out in the Group's Five-year Financial Summary on pages 34 to 35 of this annual report.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. The Group actively implements the concept and policy of environmental protection and conservation and endeavours to adopt low-carbon methods such as trucks, railways and shipping for transportation of products. The Group regularly detects and improves the air quality of the office area, guarantees water quality of drinking water, and replaces green plants regularly, with an objective to build a healthy and clean office environment. It 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 and sends holiday e-cards to reduce paper consumption. While increasing the use of the renewable energy, solar hot water, it actively responds to the call of national green environmental protection, and purchases new energy electric vehicles to save energy and reduce carbon dioxide emission. The offices are all equipped with more energy-saving lighting equipment and intelligent electricity-saving system for air conditioners, which can automatically adjust the turning on and off time and the temperature settings of air-conditioners according to weather conditions.

During the year ended 31 December 2016, the Group was subject to various laws and regulations set by the PRC national, provincial and municipal governments relevant to the Group's business operation, including The Company Law of the PRC 《中華人民共和國公司法》, Contract Law of the PRC 《中華人民共和國合同法》 and, Labor Contract Law of the People's Republic of China 《中華人民共和國勞動合同法》. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year ended 31 December 2016, 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.

REPORT OF THE DIRECTORS

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 2016, there were no material and significant disputes between the Group and its customers, suppliers, employees and/or other stakeholders.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 55 to 132 of this annual report.

The Board recommended the payment of final dividend of HK\$0.03 per share of the Company (the "Share(s)") in respect of the year ended 31 December 2016 (2015: HK\$0.02 per Share), and there is no arrangement that a Shareholder has waived or agreed to waive any dividend. The final dividend is expected to be paid on Monday, 5 June 2017 to all Shareholders whose name appear on the register of members of the Company at the close of business on 19 May 2017 and is subject to approval by the Shareholders at the forthcoming annual general meeting of the Company ("AGM").

The declared final dividend for the year ended 31 December 2015 of HK\$51,410,400 (HK\$0.02 per Share) was paid on 7 June 2016.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The AGM is scheduled to be held on Tuesday, 16 May 2017. The Company's register of members will be closed from Thursday, 11 May 2017 to Tuesday, 16 May 2017, 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 Wednesday, 10 May 2017.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS FOR PROPOSED FINAL DIVIDEND

The Company's register of members will be closed from Monday, 22 May 2017 to Wednesday, 24 May 2017, both days inclusive, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend of HK\$0.03 per Share for the year ended 31 December 2016, if approved at the AGM. During this period, no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 19 May 2017. The proposed final dividend will be paid to Shareholders whose names appear on the register of members of the Company on Friday, 19 May 2017.

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 | | | | |
|--|------------------------|------------------|------------------|------------------|------------------|
| | 2016 HK\$'000 | 2015 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 | 2012 HK\$'000 |
| Revenue | 19,063,248 | 19,839,112 | 17,558,794 | 18,343,541 | 14,928,822 |
| Cost of sales | (18,306,118) | (19,030,068) | (16,796,745) | (17,566,550) | (14,322,736) |
| Gross profit | 757,130 | 809,044 | 762,049 | 776,991 | 606,086 |
| Other income | 28,452 | 20,566 | 27,166 | 35,634 | 18,612 |
| Distribution and selling expenses | (298,938) | (335,515) | (300,995) | (306,246) | (231,991) |
| Administrative expenses | (135,461) | (171,345) | (148,460) | (141,894) | (91,548) |
| Finance costs | (41,017) | (52,428) | (62,302) | (108,314) | (60,855) |
| Profit before tax | 310,166 | 270,322 | 277,458 | 256,171 | 240,304 |
| Income tax expenses | (85,402) | (71,605) | (80,352) | (58,673) | (67,264) |
| Profit for the year from continuing operations | 224,764 | 198,717 | 197,106 | 197,498 | 173,040 |
| Profit (Loss) for the year from discontinued operation | 8,007 | (66,968) | (3,810) | – | – |
| Profit for the year | 232,771 | 131,749 | 193,296 | 197,498 | 173,040 |
| Profit for the year attributed to: | | | | | |
| Owner of the Company | 232,771 | 131,749 | 185,110 | 178,090 | 154,728 |
| Non-controlling interests | – | – | 8,186 | 19,408 | 18,312 |
| | 232,771 | 131,749 | 193,296 | 197,498 | 173,040 |

REPORT OF THE DIRECTORS

| | Year ended 31 December | | | | |
|---|------------------------|------------------|------------------|------------------|------------------|
| | 2016 HK\$'000 | 2015 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 | 2012 HK\$'000 |
| Profit for the year | 232,771 | 131,749 | 193,296 | 197,498 | 173,040 |
| Other comprehensive (expense) income | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Exchange difference arising from translation of foreign operations | (98,397) | (74,801) | (7,510) | 19,901 | 29,960 |
| Other comprehensive (expense) income for the year | (98,397) | (74,801) | (7,510) | 19,901 | 29,960 |
| Total comprehensive (expense) income for the year | 134,374 | 56,948 | 185,786 | 217,399 | 203,000 |
| Total comprehensive income attributable to: | | | | | |
| Owners of the Company | 134,374 | 56,948 | 177,965 | 196,001 | 181,692 |
| Non-controlling interests | – | – | 7,821 | 21,398 | 21,308 |
| | 134,374 | 56,948 | 185,786 | 217,399 | 203,000 |

Assets and Liabilities

| | 31 December | | | | |
|-------------------|--------------------|------------------|------------------|------------------|------------------|
| | 2016 HK\$'000 | 2015 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 | 2012 HK\$'000 |
| Total assets | 3,810,933 | 4,176,364 | 4,504,684 | 4,453,309 | 4,521,963 |
| Total liabilities | (2,453,748) | (2,902,143) | (3,236,001) | (3,370,412) | (3,656,465) |
| Total equity | 1,357,185 | 1,274,221 | 1,268,683 | 1,082,897 | 865,498 |

REPORT OF THE DIRECTORS

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in Note 16 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 Notes 24 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 2016, 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 2016 and as at the latest practicable date prior to the issue of this report, the Company maintained a sufficient public float of more than 25% in the issued share capital of the Company pursuant to the GEM Listing Rules.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company had several reserve accounts available for distribution, in the amount of approximately HK\$1,034.55 million, which may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 31 December 2016, sales to the Group's five largest customers accounted for approximately 10.73% of the total sales for the year and sales to the largest customer included therein amounted to approximately 6.24%. Purchases from the Group's five largest suppliers accounted for approximately 54.91% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 19.89%.

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 2016.

DIRECTORS

The Directors during the year were:

Executive directors:

Mr. ZHAO Yong
Mr. ZHU Jianqiu
Mr. YU Xiao
Mr. TANG Yun (resigned on 13 April 2016)
Mr. WU Xiangtao
Ms. SHI Ping

Independent non-executive directors:

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

In accordance with clause 86 of the Bye-laws, Mr. ZHAO Yong, Mr. ZHU Jianqiu and Ms. SHI Ping will retire and, being eligible, will offer themselves for re-election at the AGM.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical Details of the Directors and the senior management of the Group are set out on pages 5 to 7 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

INDEMNITY AND INSURANCE PROVISIONS

The Bye-laws provide that every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty. Such provisions were in force during the course of the financial year ended 31 December 2016 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 2016.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any 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 2016.

REPORT OF THE DIRECTORS

INTERESTS OF THE DIRECTORS IN THE COMPANY

As at 31 December 2016, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

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

Note:

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

Save as disclosed in this paragraph, as at 31 December 2016, none of the Directors or chief executives of the Company had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2016 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.

REPORT OF THE DIRECTORS

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to the Directors, as at 31 December 2016, the persons or companies (not being a Director or chief executive of the Company) whose interests in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed or were notified to the Company and the Stock Exchange pursuant to the positions under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

| Name of substantial Shareholder | Capacity | Class of Shares | Number of Shares held | Approximate percentage of interest in relevant class of Shares (Note a) % |
|---|---|-----------------|----------------------------|---|
| Sichuan Changhong Electric Co, Limited ("Sichuan Changhong") | Interest of controlled corporation and beneficial owner | Ordinary | 1,008,368,000 (L) (Note b) | 69.32 |
| | | Preference | 1,115,868,000 (L) (Note c) | 100.00 |
| Changhong (Hong Kong) Trading Limited ("Changhong Hong Kong") | Interest of controlled corporation and beneficial owner | Ordinary | 913,000,000 (L) (Note d) | 62.76 |
| | | Preference | 1,115,868,000 (L) (Note c) | 100.00 |
| Fit Generation Holding Limited ("Fit Generation") | Beneficial owner | Ordinary | 897,000,000 (L) | 61.66 |
| | | Preference | 1,115,868,000 (L) | 100.00 |
| Sichuan Investment Management Company Limited ("Sichuan Investment Management") (Note e) | Beneficial owner | Ordinary | 83,009,340 (L) | 5.70 |
| Sichuan Provisional Investment Group Company Limited ("Sichuan Investment") (Note e) | Interest of controlled corporation | Ordinary | 83,009,340 (L) | 5.70 |
| Typical Faith Limited (Note f) | Beneficial owner | Ordinary | 82,415,762 (L) | 5.67 |

REPORT OF THE DIRECTORS

Notes:

- (a) The percentages are calculated based on the total number of Shares and preference shares of the Company in issue as at 31 December 2016, which were 1,454,652,000 and 1,115,868,000, respectively.
- (b) Of the 1,008,368,000 Shares held by Sichuan Changhong, 95,368,000 Shares were held directly, 16,000,000 Shares were held through its wholly-owned subsidiary, Changhong Hong Kong and 897,000,000 Shares were held through Fit Generation, which is wholly-owned by Changhong Hong Kong. Sichuan Changhong is therefore deemed to be interested in the Shares held by Changhong Hong Kong and Fit Generation for the purpose of the SFO.
- (c) 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.
- (d) Of the 913,000,000 Shares held by Changhong Hong Kong, 16,000,000 Shares were held directly and 897,000,000 Shares were held through Fit Generation. As Fit Generation is wholly-owned by Changhong Hong Kong, Changhong Hong Kong is deemed to be interested in the Shares held by Fit Generation for the purpose of the SFO.
- (e) Sichuan Investment Management is wholly-owned by Sichuan Investment Group, which is deemed to be interested in the Shares held by Sichuan Investment Management for the purpose of the SFO.
- (f) Typical Faith Limited is wholly-owned by Mr. Zhu.

Save as disclosed above, as at 31 December 2016, 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.

DIRECTOR'S INTEREST IN A COMPETING BUSINESS

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

Save as disclosed in this paragraph, none of the Directors or the substantial shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the period under review.

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

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct for securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards as set out in the Code of Conduct.

REPORT OF THE DIRECTORS

INVESTOR RELATIONS

Constitutional documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2016.

CONTINUING CONNECTED TRANSACTIONS

During the year 2016, the following continuing connected transactions were carried out by the Group.

(a) Master Supply Agreement

On 19 April 2016, the Company entered into a framework agreement (the "2016 Master Supply Agreement") with Sichuan Changhong Electric Holding Group Co., Ltd. 四川長虹電子控股集團有限公司 ("Sichuan Changhong Electric") in relation to the supply of IT products such as servers, notebooks, storage devices and network equipment (the "Supply Products") to Sichuan Changhong Electric and its subsidiaries (the "Sichuan Changhong Electric Group") for a fixed term commencing from the date of the 2016 Master Supply Agreement to 31 December 2016 (both days inclusive). In accordance with the 2016 Master Supply Agreement, the Group and the Sichuan Changhong Electric Group entered into individual orders setting out specific terms of each individual purchase of the Supply Products during the year ended 31 December 2016. Pursuant to the 2016 Master Supply Agreement, (i) the price and terms of the individual orders in respect of the supply of the Supply Products by the Group to the Sichuan Changhong Electric Group shall be on normal commercial terms, negotiated on an arm's length basis, on similar basis as the Group transacts business with other independent third party customers and shall be on terms which are no less favourable to the Group than those provided to independent third party customers; and (ii) payment shall be made by the Sichuan Changhong Electric Group, for project business, in accordance with the payment terms under individual order with reference to the timing of the project business; and for any other trading business, within normal credit period upon the date of invoice. For the year ended 31 December 2016, the transaction amount under the 2016 Master Supply Agreement is subject to a cap of RMB65.00 million (2015: approximately HK\$2,943.00 million). As Sichuan Changhong Electric owns approximately 23.19% equity interest in Sichuan Changhong, a controlling Shareholder, and has control over Sichuan Changhong, both Sichuan Changhong and Sichuan Changhong Electric are controlling Shareholders and hence Sichuan Changhong Electric is a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules. Accordingly, the transactions contemplated under the 2016 Master Supply Agreement constituted continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As the highest of the applicable percentage ratios of the annual cap in respect of the annual transaction amount under the 2016 Master Supply Agreement was more than 0.1% but less than 5%, the transactions under the 2016 Master Supply Agreement were exempt from independent Shareholders' approval requirements but were subject to announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

The Directors were of the view that the entering into of the 2016 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 2016 Master Supply Agreement, please refer to the announcement of the Company dated 19 April 2016.

For the year ended 31 December 2016, the sale made under the 2016 Master Supply Agreement amounted to RMB56.92 million (2015: approximately HK\$91.70 million) in total. The 2016 Master Supply Agreement expired On 14 December 2016, the Company entered into a framework agreement (the "2017 Master Supply Agreement") with Sichuan Changhong Electric, pursuant to which the Company agreed to supply, or procure its subsidiaries to supply, the Supply Products to the Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2017 to 31 December 2017 (both days inclusive). The transaction amount under the 2017 Master Supply Agreement shall not exceed RMB60 million. For details of the 2017 Master Supply Agreement, please refer to the announcement of the Company dated 14 December 2016.

(b) Master Purchase Agreement

On 19 April 2016, the Company entered into a framework agreement (the "2016 Master Purchase Agreement") with Sichuan Changhong Electric, in relation to the purchase of software, services and other ancillary products (the "Purchase Products") from the Sichuan Changhong Electric Group for a fixed term commencing from the date of the 2016 Master Purchase Agreement to 31 December 2016 (both days inclusive). In accordance with the 2016 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 2016. Pursuant to the 2016 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 2016, the transactions amount under the 2016 Master Purchase Agreement was subject to a cap of RMB5.00 million (2015: approximately HK\$1,354.00 million) under the 2016 Master. As disclosed above, Sichuan Changhong Electric is a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules. Accordingly, the transactions contemplated under the 2016 Master Purchase Agreement constituted continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As the highest of the applicable percentage ratios of the annual cap in respect of the annual transaction amount under the 2016 Master Purchase Agreement was more than 0.1% but less than 5%, the transactions under the 2016 Master Purchase Agreement were exempt from independent Shareholders' approval requirements but were subject to announcement, reporting and annual review requirements under Chapter 20 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

The Directors were of the view that the entering into of the 2016 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 has a deep understanding as to the specifications of the products required by the Group, the entering of the 2016 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 2016 Master Purchase Agreement, please refer to the announcement of the Company dated 19 April 2016.

For the year ended 31 December 2016, the purchase made under the 2016 Master Purchase Agreement amounted to RMB358,491 (2015: nil) in total. The 2016 Master Purchase Agreement expired on 31 December 2016. On 14 December 2016, the Company entered into a framework agreement (the "2017 Master Purchase Agreement") with Sichuan Changhong Electric, pursuant to which the Company agreed to purchase, or procure its subsidiaries to purchase, the Purchase Products from the Sichuan Changhong Electric Group for a fixed term commencing from 1 January 2017 to 31 December 2017 (both days inclusive). The transaction amount under the 2017 Master Purchase Agreement shall not exceed RMB5.25 million. For details of the 2017 Master Purchase Agreement, please refer to the announcement of the Company dated 14 December 2016.

(c) Financial Services Agreement

On 26 March 2015, Changhong IT Information Products Co., Ltd (Chinese name) ("CHIT") (a subsidiary of the Company) entered into a financial services agreement (the "Financial Services Agreement") with Sichuan Changhong Group Finance Company, Limited (Chinese name) ("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 CHIT.

The Financial Services Agreement has a fixed term from 26 March 2015 and ending on 31 December 2017 (both dates inclusive). Pursuant to the 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 CHIT from other major commercial banks in the PRC independent to CHIT 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 CHIT 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 CHIT by other major commercial banks in the PRC independent to CHIT in respect of the same type of loans; and (iii) in relation to the settlement services to CHIT, 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 CHIT in respect of the same type of settlement services.

REPORT OF THE DIRECTORS

As the deposit interest rates and the lending rates offered by Changhong Finance to CHIT would be equal to or more favorable to CHIT than those offered by independent commercial banks in the PRC to CHIT for comparable deposits or, as the case may be, loans, the Financial Services Agreement is therefore expected not only to provide CHIT 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. CHIT 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 Financial Services Agreement, please refer to the announcement of the Company dated 26 March 2015 and the circular of the Company dated 28 April 2015.

Changhong Finance is a company owned as to 50% by Sichuan Changhong, the controlling shareholder of the Company and 50% by Sichuan Changhong Electric, a company which holds approximately 23.19% of the equity interest of Sichuan Changhong. Accordingly, Changhong Finance is an associate of a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules, and accordingly the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company for the purpose of the GEM Listing Rules. As the highest of the applicable percentage ratios of the annual caps in respect of the deposit services under the Financial Services Agreement exceeds 5% on an annual basis, the deposit services under the Financial Services Agreement and the annual caps constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The loan services under the 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 Financial Services Agreement are exempt from announcement, reporting, annual review and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

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

The Financial Services Agreement and the transactions contemplated thereunder, together with the annual caps (being the maximum daily outstanding balance of deposit, loan and settlement services to be placed by CHIT and its subsidiaries with Changhong Finance under the Financial Services Agreement), for the three years ending 31 December 2015, 2016 and 2017 were approved by the independent Shareholders at the special general meeting of the Company held on 15 May 2015.

REPORT OF THE DIRECTORS

For the year ended 31 December 2016, the Financial Services were subject to the annual caps as follows:

| | Deposit service – Maximum daily outstanding balance of deposits to be deposited by CHIT with Changhong Finance (RMB'000 per day) | Loan service – Maximum daily outstanding balance of loans to be granted by Changhong Finance to CHIT (RMB'000) | Settlement service – Maximum service fees for the settlement services to be provided by Changhong Finance to CHIT (RMB'000) |
|---|---|---|--|
| Annual cap for the year ended 31 December 2016 | 600,000 | 600,000 | 5,000 |

For the year ended 31 December 2016, the actual transaction amounts for each of the Financial Services are as follows:

| | Deposit service – Maximum daily outstanding balance of deposits to be deposited by CHIT with Changhong Finance (RMB'000 per day) | Loan service – Maximum daily outstanding balance of loans to be granted by Changhong Finance to CHIT (RMB'000) | Settlement service – Maximum service fees for the settlement services to be provided by Changhong Finance to CHIT (RMB'000) |
|--|---|---|--|
| Actual transaction amount for the year ended 31 December 2016 | 55,002 | 100,000 | – |

Confirmation of Independent Non-executive Directors

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

- (i) in the ordinary and usual course of business of the Group;
- (ii) 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
- (iii) 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.

REPORT OF THE DIRECTORS

Confirmation from Auditor of the Company

The Board has received a confirmation from the auditor of the Company with respect to the above continuing connected transactions and the letter stated that for the year ended 31 December 2016, the above continuing connected transactions:

- (i) have been approved by the Board;
- (ii) have been entered into in accordance with the pricing policies of the Company;
- (iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and
- (iv) have not exceeded the cap amount announced by the Company.

RELATED PARTY TRANSACTIONS

The related party transactions during the year ended 31 December 2016 as disclosed in note 34 to the consolidated financial statements in this Annual Report fall under the definition of “connected transactions” under the GEM Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 20 of the GEM Listing Rules.

AUDITOR

The financial statements of the Group for the year ended 31 December 2016 were audited by Deloitte Touche Tohmatsu who shall retire and, being eligible, offer themselves for re-appointment at the AGM.

For and on behalf of the Board

ZHAO Yong

Chairman

Hong Kong
31 March 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

To the Shareholders of Changhong Jiahua Holdings Limited
(incorporated in Bermuda with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Changhong Jiahua Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 55 to 132, which comprise the consolidated statement of financial position as at 31 December 2016, 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

The books and accounting records of a wholly owned subsidiary, Changhong Overseas Development Limited ("CHOD"), in respect of the year ended 31 December 2015 were found to be incomplete. As such, there was insufficient supporting documentation to carry out audit procedures to assess whether the loss for the year from discontinued operation of approximately HK\$66,968,000 for the year ended 31 December 2015, assets classified as held for sale of approximately HK\$2,150,000 and liabilities associated with assets classified as held for sale of approximately HK\$14,801,000 as at 31 December 2015 and 1 January 2016 and the related disclosures were fairly stated. This caused the predecessor auditor to qualify the audit opinion on the consolidated financial statements in respect of the year ended 31 December 2015. On 21 December 2016, the Group disposed of the entire equity interest of CHOD to an independent third party. As described above, as the books and accounting records of CHOD were found to be incomplete, we were unable to obtain sufficient appropriate audit evidence about the gain on disposal of a subsidiary of approximately HK\$7,542,000 and the profit for the year from discontinued operation of approximately HK\$465,000 for the year ended 31 December 2016 included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 and the related disclosures. Any adjustments found to be necessary would affect the Group's net assets as at 31 December 2016 and 2015 and the profits and cash flows for the years then ended.

INDEPENDENT AUDITOR'S REPORT

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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 qualified opinion

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.

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. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT

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 5 and 20 to the consolidated financial statements, allowance for inventories of approximately HK\$2,165,000 has been recognised during the year ended 31 December 2016 and the carrying value of inventories was approximately HK\$1,318,904,000 (net of allowance for inventories of approximately HK\$19,395,000) as at 31 December 2016, which represents 35% of the total assets of the Group.

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

How our audit addressed the key audit matter

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

- Understanding the relevant internal control procedures regarding obsolete/damaged stocks, inventory costs and inventory counts that are periodically performed by 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 costs of inventories, on a sample basis, against source documents;
- Obtaining the inventory aging report to identify long aged inventories and assessing whether allowance for inventories was properly provided for; and
- Comparing the costs of long aged inventories with subsequent sales invoices.

INDEPENDENT AUDITOR'S REPORT

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 allowance for doubtful debts.

As disclosed in Notes 5 and 18 to the consolidated financial statements, bad debts and impairment loss on trade receivables of approximately HK\$14,371,000 has been recognised during the year ended 31 December 2016 and the carrying amount of the Group's trade receivables is approximately HK\$1,400,826,000 (net of allowance for doubtful debts of approximately HK\$60,671,000).

The Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

How our audit addressed the key audit matter

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

- Understanding the key control relating to the preparation of aging report of trade receivables;
- Obtaining the aging report of trade receivables to identify long aged balance and testing the aging report of the trade receivables, on a sample basis, to the source documents;
- Obtaining an understanding of management's bases and assessment in relation to the recoverability of the trade receivables and evaluating management's assessment by taking into account of the relevant factors such as financial information of individual debtors;
- Testing settlements received in respect of the trade receivables subsequent to the period end, on a sample basis, against source documents; and
- Performing company and litigation searches in respect of debtors with material overdue balances to identify any additional indicators on financial difficulties.

INDEPENDENT AUDITOR'S REPORT

OTHER MATTER

The consolidated financial statements for the year ended 31 December 2015 were audited by another auditor who expressed a qualified opinion, as described in the Basis for Qualified Opinion section of our report, on those statements on 30 March 2016.

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 and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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.



INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in the independent auditor's report is Fung Hin Chiu.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | NOTE | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|--|------|-------------------------|-------------------------|
| Continuing operations | | | |
| Revenue | 6 | 19,063,248 | 19,839,112 |
| Cost of sales | | <u>(18,306,118)</u> | <u>(19,030,068)</u> |
| Gross profit | | 757,130 | 809,044 |
| Other income | 8 | 28,452 | 20,566 |
| Distribution and selling expenses | | (284,624) | (318,064) |
| Research and development expenses | | (14,314) | (17,451) |
| Administrative expenses | | (114,679) | (133,180) |
| Finance costs | 9 | (41,017) | (52,428) |
| Bad debts and impairment loss on trade receivables, net | | (14,344) | (9,737) |
| Exchange loss, net | | <u>(6,438)</u> | <u>(28,428)</u> |
| Profit before tax | | 310,166 | 270,322 |
| Income tax expenses | 10 | <u>(85,402)</u> | <u>(71,605)</u> |
| Profit for the year from continuing operations | 12 | 224,764 | 198,717 |
| Discontinued operation | | | |
| Profit (loss) for the year from discontinued operation | 11 | <u>8,007</u> | <u>(66,968)</u> |
| Profit for the year | | <u>232,771</u> | <u>131,749</u> |
| Other comprehensive expense | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange difference arising from translation of foreign operations | | <u>(98,397)</u> | <u>(74,801)</u> |
| Total comprehensive income for the year | | <u>134,374</u> | <u>56,948</u> |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

| | <i>NOTE</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---|-------------|---------------------------------------|-------------------------|
| Profit (loss) for the year attributable to owners of the Company: | | | |
| – from continuing operations | | 224,764 | 198,717 |
| – from discontinued operation | | 8,007 | (66,968) |
| | | 232,771 | 131,749 |
| Total comprehensive income (expense) attributable to owners of the Company: | | | |
| – from continuing operations | | 126,367 | 123,916 |
| – from discontinued operation | | 8,007 | (66,968) |
| | | 134,374 | 56,948 |
| Earnings per share | <i>15</i> | | |
| From continuing and discontinued operations | | | |
| Basic and diluted (HK cents) | | 9.06 | 5.13 |
| From continuing operations | | | |
| Basic and diluted (HK cents) | | 8.74 | 7.73 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

| | NOTES | 2016 HK\$'000 | 2015 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Plant and equipment | 16 | 30,350 | 25,287 |
| Available-for-sale investment | 17 | 9,223 | 9,849 |
| | | 39,573 | 35,136 |
| Current assets | | | |
| Inventories | 20 | 1,318,904 | 1,613,065 |
| Trade and bills receivables | 18 | 1,400,826 | 1,455,280 |
| Prepayments, deposits and other receivables | 19 | 51,171 | 26,565 |
| Amounts due from related companies | 34(b) | 17,930 | 9,953 |
| Trade deposits paid | | 675,125 | 775,599 |
| Pledged bank deposits | 21 | 54,122 | 107,646 |
| Bank balances and cash | 21 | 253,282 | 150,970 |
| | | 3,771,360 | 4,139,078 |
| Assets classified as held for sale | 11 | – | 2,150 |
| | | 3,771,360 | 4,141,228 |
| Current liabilities | | | |
| Trade and bills payables | 22 | 1,607,015 | 1,995,326 |
| Other payables | 23 | 238,110 | 140,771 |
| Tax payables | | 23,830 | 7,460 |
| Borrowings | 26 | 315,073 | 524,925 |
| Amounts due to related companies | 34(b) | 13,912 | 8,929 |
| Customer deposits | | 249,524 | 193,621 |
| Government grants | 28 | – | 11,585 |
| | | 2,447,464 | 2,882,617 |
| Liabilities associated with assets classified as held for sale | 11 | – | 14,801 |
| | | 2,447,464 | 2,897,418 |
| Net current assets | | 1,323,896 | 1,243,810 |
| Total assets less current liabilities | | 1,363,469 | 1,278,946 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

| | NOTES | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|-------------------------------|-------|-------------------------|-------------------------|
| Non-current liability | | | |
| Government grants | 28 | <u>6,284</u> | <u>4,725</u> |
| Net assets | | <u>1,357,185</u> | <u>1,274,221</u> |
| Capital and reserves | | | |
| Share capital | 24 | 36,366 | 36,366 |
| Convertible preference shares | 24 | 27,897 | 27,897 |
| Reserves | | <u>1,292,922</u> | <u>1,209,958</u> |
| Total equity | | <u>1,357,185</u> | <u>1,274,221</u> |

The consolidated financial statements on pages 55 to 132 were approved and authorised for issue by the board of directors on 31 March 2017 and are signed on its behalf by:

Zhao Yong
DIRECTOR

Zhu Jianqiu
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

| | Share capital | Convertible preference share | Share premium | Statutory reserve | Merger reserve | Translation reserve | Other reserve | Contributed surplus | Retained earnings | Total |
|--|---------------|------------------------------|---------------|----------------------|-----------------------|---------------------|------------------------|-----------------------|-------------------|------------------|
| | HK\$'000 | 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 2015 | 36,366 | 27,897 | 2,095,051 | 45,163 | (1,248,106) | 37,730 | (203,432) | - | 478,014 | 1,268,683 |
| Profit for the year | - | - | - | - | - | - | - | - | 131,749 | 131,749 |
| Exchange differences arising on translation | - | - | - | - | - | (74,801) | - | - | - | (74,801) |
| Total comprehensive (expenses) income for the year | - | - | - | - | - | (74,801) | - | - | 131,749 | 56,948 |
| Appropriation to statutory reserve | - | - | - | 4,372 | - | - | - | - | (4,372) | - |
| Conversion of share premium to contributed surplus | - | - | (2,095,051) | - | - | - | - | 2,095,051 | - | - |
| Dividends recognised as distribution (Note 14) | - | - | - | - | - | - | - | (51,410) | - | (51,410) |
| At 31 December 2015 and 1 January 2016 | 36,366 | 27,897 | - | 49,535 | (1,248,106) | (37,071) | (203,432) | 2,043,641 | 605,391 | 1,274,221 |
| Profit for the year | - | - | - | - | - | - | - | - | 232,771 | 232,771 |
| Exchange differences arising on translation | - | - | - | - | - | (98,397) | - | - | - | (98,397) |
| Total comprehensive (expenses) income for the year | - | - | - | - | - | (98,397) | - | - | 232,771 | 134,374 |
| Appropriation to statutory reserve | - | - | - | 7,185 | - | - | - | - | (7,185) | - |
| Dividends recognised as distribution (Note 14) | - | - | - | - | - | - | - | (51,410) | - | (51,410) |
| At 31 December 2016 | 36,366 | 27,897 | - | 56,720 | (1,248,106) | (135,468) | (203,432) | 1,992,231 | 830,977 | 1,357,185 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

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 at the first date 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 2016

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| OPERATING ACTIVITY | | |
| Profit before tax from continuing and discontinued operations | 318,173 | 203,354 |
| Adjustments for: | | |
| Depreciation for plant and equipment | 7,172 | 8,504 |
| Finance costs | 41,019 | 52,428 |
| Gain on disposal of plant and equipment | (5) | (54) |
| Gain on disposal of a subsidiary | (7,542) | – |
| Interest income | (2,513) | (10,865) |
| Government grants | (23,845) | (5,028) |
| Allowance for inventories | 2,165 | 1,680 |
| Impairment loss on trade receivables, net | 12,854 | 65,226 |
| Bad debts directly written off | 1,517 | – |
| Reversal of allowance for inventories | (3,592) | – |
| Waive of trade payables | (31) | (7,041) |
| Reversal of provisions | (3,043) | – |
| Operating cash flows before movements in working capital | 342,329 | 308,204 |
| Decrease (increase) in inventories | 41,859 | (162,797) |
| Increase in trade and bills receivables | (667,061) | (798,585) |
| Decrease (increase) in trade deposits paid | 54,172 | (470,777) |
| (Increase) decrease in prepayments, deposits and other receivables | (26,842) | 40,007 |
| Decrease in amount due to ultimate holding company | – | (2,331) |
| (Decrease) increase in trade and bills payables | (266,564) | 111,603 |
| Increase in other payables | 115,709 | 21,656 |
| Increase in customer deposits | 72,184 | 49,154 |
| Receipt of government grants | 10,085 | – |
| Cash used in operations | (324,129) | (903,866) |
| The PRC tax paid | (66,142) | (101,048) |
| Hong Kong Profits Tax (paid) refunded | (1,686) | 965 |
| NET CASH USED IN OPERATING ACTIVITIES | (391,957) | (1,003,949) |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | <i>Note</i> | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|--|-------------|--------------------------------|-------------------------|
| INVESTING ACTIVITIES | | | |
| Placement of pledged bank deposits | | (239,020) | – |
| Purchase of plant and equipment | | (15,143) | (9,667) |
| Net cash outflow from disposal of a subsidiary | 11 | (2) | – |
| Investment in available-for-sale investment | | – | (10,267) |
| Withdrawal of pledged bank deposits | | 288,439 | 125,527 |
| Receipt of government grants related to plant and equipment | | 4,143 | 629 |
| Interest received | | 2,513 | 10,865 |
| Proceeds from disposal of plant and equipment | | 1,714 | 54 |
| NET CASH GENERATED FROM INVESTING ACTIVITIES | | 42,644 | 117,141 |
| FINANCING ACTIVITIES | | | |
| Repayments of bank borrowings | | (1,626,276) | (468,510) |
| Repayments of loan from ultimate holding company | | – | (277,316) |
| Repayment of loan from a fellow subsidiary | | (118,364) | (63,115) |
| Dividend paid | | (51,410) | (51,410) |
| Interest paid | | (34,874) | (44,064) |
| Guarantee fee paid | | (6,145) | (8,364) |
| New bank borrowings raised | | 1,557,580 | 307,119 |
| Advances on discounted bills | | 744,528 | 1,320,770 |
| Loan from a fellow subsidiary | | – | 119,389 |
| NET CASH FROM FINANCING ACTIVITIES | | 465,039 | 834,499 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 115,726 | (52,309) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 151,661 | 212,204 |
| Effect of foreign exchange rate changes | | (14,105) | (8,234) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash | | 253,282 | 151,661 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

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

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 1502, 15/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The Company’s shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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 Shanghai Stock Exchange, has obtained the control over the board of directors of the Company since 2012. In the opinion of the directors of the Company, the immediate and ultimate holding company of the Company is Sichuan Changhong as at 31 December 2016.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 35.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Change of functional currency

Subsequent to the completion of disposal of Changhong Overseas Development Limited (“CHOD”), an indirect wholly owned subsidiary of the Company, on 21 December 2016 as details set out in Note 11, the directors of the Company re-assessed the functional currency of the Company and considered the Company’s major assets and its respective risks and rewards are primarily located in the PRC. As a result, the directors of the Company determined to change the functional currency from United States dollars (“USD”) to Renminbi (“RMB”) with effect from 21 December 2016. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21 The Effect of Changes in Foreign Exchange Rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for 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 in the current year.

| | |
|--|--|
| Amendments to HKFRS 11 | Accounting for Acquisition of Interests in Joint Operations |
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012 – 2014 Cycle |

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

New and amendments to HKFRSs issued but not yet effective

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

| | |
|------------------------------------|--|
| HKFRS 9 | Financial Instruments ¹ |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments ¹ |
| HKFRS 16 | Lease ² |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions ¹ |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to HKAS 7 | Disclosure Initiative ⁴ |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses ⁴ |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014-2016 Cycle ⁵ |

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 9 Financial instrument

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 that are related to the Group:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at Fair Value Through Other Comprehensive Income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 9 Financial instrument (Continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment loss, will either be measured as fair value through profit or loss or be designated as FVTOCI. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity 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. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 15 Revenue from Contracts with Customers (Continued)

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in respective reporting periods.

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 16 Leases (Continued)

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately HK\$11,377,000 as disclosed in Note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Except for described as above, the directors of the Company do not anticipate that the application of other new and amendments to HKFRSs will have a material effect on the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(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.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

Plant and equipment

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

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

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

Available-for-sale financial asset

Available-for-sale financial asset is non-derivative that is either designated as available-for-sale or is not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group designated the equity investment in Sichuan Hongyun New Generation of IT Venture Capital Fund as available-for-sale financial asset on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial asset *(Continued)*

Available-for-sale equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

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

For available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

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

Effective interest method

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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.

Revenue recognition

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Service income is recognised when services are provided.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Government grants

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

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

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as expenses when employees have rendered service entitling them to the contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 benefit 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.

Leasing

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

The Group as lessee

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the 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 recognized in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange 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, or a partial disposal of an interest in an associates that includes a foreign operation of which the retained interest becomes a financial asset), 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of 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 difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Borrowing costs

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

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

Inventories

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

Provisions

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

Provisions are measured at 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).

Investments in subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible assets

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal, its value in use and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. The management of the Group reviewed the inventory aging report at the end of the reporting period to identify inventories that are no longer saleable in the market and estimated the net realizable value for those items based primarily on the latest invoice prices and current market conditions. Allowance for inventories of approximately HK\$2,165,000 (2015: HK\$1,680,000) has been recognised during the year ended 31 December 2016. As at 31 December 2016, the carrying amount of inventories is approximately HK\$1,318,904,000 (2015: HK\$1,613,065,000) (net of allowance for inventories of approximately HK\$19,395,000 (2015: HK\$22,152,000)).

Estimated impairment of trade and bills receivables

Management regularly reviews the recoverability and age of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated statement of profit or loss when there is objective evidence that the asset is impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of trade and bills receivables (Continued)

In determining whether impairment of bad and doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. Bad debts and impairment loss on trade receivables of approximately HK\$14,371,000 (2015: HK\$65,226,000) has been recognised during the year ended 31 December 2016. As at 31 December 2016, the carrying amount of trade and bills receivables is approximately HK\$1,400,826,000 (net of allowance for doubtful debts of approximately HK\$60,671,000) (2015: HK\$1,455,280,000 (net of allowance for doubtful debts of approximately HK\$55,414,000)).

6. REVENUE

Continuing operations

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

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

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|-----------------------|--------------------------------|-------------------------|
| IT Consumer Products | 9,803,344 | 13,343,465 |
| IT Corporate Products | 4,972,014 | 4,812,319 |
| Others | 4,287,890 | 1,683,328 |
| | <u>19,063,248</u> | <u>19,839,112</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION

Information reported to the executive directors or 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:

Continuing operations:

1. IT Consumer Products – distribution of IT consumer products which include mainly personal computers, digital products and IT accessories.
2. IT Corporate Products – distribution of IT corporate products which include mainly storage products, minicomputers, networking products, personal computer servers, intelligent building management system products and unified communication and contact centre products.
3. Others – distribution of smartphones and development of its own brand products including but not limited to mobile location-based service products and provision of professional integrated IT solutions and services.

Discontinued operation:

Consumer Electronic Products – trading of consumer electronic products which include mainly LCD panels, electronic parts and components.

The accounting policies of the operating segments are the same as the Group’s accounting policies described in Note 4. Segment profit represents the profit earned by each segment without allocation of other income, finance costs as well as unallocated head office and corporate expenses. Certain expenses in the segment information for the year ended 31 December 2015 have been reclassified due to the internal change of presentation reported to CODM during the current year. 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, prepayment, deposits and other receivables for general operation, tax recoverable, pledged bank deposits, bank balances and cash and available-for-sale investment. Segment liabilities do not include other payables for general operation, tax payables, amounts due to related companies, government grants and borrowings.

The segment information reported does not include any amounts of the above discontinued operation, which is described in more detail in Note 11.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION *(Continued)*

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

For the year ended 31 December 2016

Continuing operations

| | IT consumer products <i>HK\$'000</i> | IT corporate products <i>HK\$'000</i> | Others <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------------|---|--|---------------------------|--------------------------|
| Revenue | | | | |
| External sales | <u>9,803,344</u> | <u>4,972,014</u> | <u>4,287,890</u> | <u>19,063,248</u> |
| Segment profit | <u>183,622</u> | <u>231,889</u> | <u>42,651</u> | 458,162 |
| Other income | | | | 28,452 |
| Research and development expenses | | | | (14,314) |
| Administrative expenses | | | | (114,679) |
| Exchange loss, net | | | | (6,438) |
| Finance costs | | | | <u>(41,017)</u> |
| Profit before tax | | | | <u>310,166</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2016 *(Continued)*

Continuing operations *(Continued)*

| | IT consumer products <i>HK\$'000</i> | IT corporate products <i>HK\$'000</i> | Others <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|--|---------------------------|--------------------------|
| Segment assets | <u>1,668,334</u> | <u>1,688,388</u> | <u>56,063</u> | 3,412,785 |
| Unallocated assets: | | | | |
| Pledged bank deposits | | | | 54,122 |
| Bank balances and cash | | | | 253,282 |
| Prepayments, deposits and other receivables | | | | 51,171 |
| Plant and equipment | | | | 30,350 |
| Available-for-sale investment | | | | <u>9,223</u> |
| Total segment and consolidated assets | | | | <u>3,810,933</u> |
| Segment liabilities | <u>921,492</u> | <u>914,403</u> | <u>20,644</u> | 1,856,539 |
| Unallocated liabilities: | | | | |
| Other payables | | | | 238,110 |
| Amounts due to related companies | | | | 13,912 |
| Government grants | | | | 6,284 |
| Tax payable | | | | 23,830 |
| Borrowings | | | | <u>315,073</u> |
| Total segment and consolidated liabilities | | | | <u>2,453,748</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2015

Continuing operations

| | IT consumer products <i>HK\$'000</i> | IT corporate products <i>HK\$'000</i> | Others <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------------|---|--|---------------------------|--------------------------|
| Revenue | | | | |
| External sales | <u>13,343,465</u> | <u>4,812,319</u> | <u>1,683,328</u> | <u>19,839,112</u> |
| Segment profit | <u>222,654</u> | <u>223,032</u> | <u>35,557</u> | 481,243 |
| Other income | | | | 20,566 |
| Research and development expenses | | | | (17,451) |
| Administrative expenses | | | | (133,180) |
| Exchange loss, net | | | | (28,428) |
| Finance costs | | | | <u>(52,428)</u> |
| Profit before tax | | | | <u>270,322</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2015 *(Continued)*

Continuing operations *(Continued)*

| | IT consumer products <i>HK\$'000</i> | IT corporate products <i>HK\$'000</i> | Others <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|--|---------------------------|--------------------------|
| Segment assets | <u>2,029,758</u> | <u>1,585,140</u> | <u>238,999</u> | 3,853,897 |
| Unallocated assets: | | | | |
| Pledged bank deposits | | | | 107,646 |
| Bank balances and cash | | | | 150,970 |
| Prepayments, deposits and other receivables | | | | 26,565 |
| Plant and equipment | | | | 25,287 |
| Available-for-sale Investment | | | | <u>9,849</u> |
| Total segment assets | | | | 4,174,214 |
| Assets classified as held for sale | | | | <u>2,150</u> |
| Consolidated assets | | | | <u>4,176,364</u> |
| Segment liabilities | <u>1,173,036</u> | <u>944,185</u> | <u>71,726</u> | 2,188,947 |
| Unallocated liabilities: | | | | |
| Other payables | | | | 140,771 |
| Amounts due to related companies | | | | 8,929 |
| Government grants | | | | 16,310 |
| Tax payable | | | | 7,460 |
| Borrowings | | | | <u>524,925</u> |
| Total segment liabilities | | | | 2,887,342 |
| Liabilities classified as held for sale associated with assets | | | | <u>14,801</u> |
| Consolidated liabilities | | | | <u>2,902,143</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2016

Continuing operations

| | IT consumer products <i>HK\$'000</i> | IT corporate products <i>HK\$'000</i> | Others <i>HK\$'000</i> | Unallocated <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|--|---------------------------|--------------------------------|--------------------------|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | |
| Bad debts and impairment loss on trade receivables | 7,430 | 5,351 | 1,563 | – | 14,344 |
| (Reversal of allowance) allowance for inventories | (724) | 2,111 | (2,814) | – | (1,427) |
| Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets: | | | | | |
| Research and development expenses | – | – | – | 14,314 | 14,314 |
| Addition to non-current assets | – | – | – | 15,143 | 15,143 |
| Depreciation | – | – | – | 7,167 | 7,167 |
| Gain on disposal of plant and equipment | – | – | – | (7) | (7) |
| Bank interest income | – | – | – | (2,513) | (2,513) |
| Finance costs | – | – | – | 41,017 | 41,017 |
| Income tax expenses | – | – | – | 85,402 | 85,402 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2015

Continuing operations

| | IT consumer products <i>HK\$'000</i> | IT corporate products <i>HK\$'000</i> | Others <i>HK\$'000</i> | Unallocated <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|--|---------------------------|--------------------------------|--------------------------|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | |
| Impairment loss on trade receivables, net | 9,099 | 3,627 | (2,989) | – | 9,737 |
| Allowance for inventories | 824 | 552 | 304 | – | 1,680 |
| Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets: | | | | | |
| Research and development expenses | – | – | – | 17,451 | 17,451 |
| Addition to non-current assets | – | – | – | 19,934 | 19,934 |
| Depreciation | – | – | – | 8,495 | 8,495 |
| Gain on disposal of plant and equipment | – | – | – | (54) | (54) |
| Bank interest income | – | – | – | (10,864) | (10,864) |
| Finance costs | – | – | – | 52,428 | 52,428 |
| Income tax expenses | – | – | – | 71,605 | 71,605 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION *(Continued)*

Geographical information

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

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|-----------------|---------------------------------------|-------------------------|
| Mainland, China | 19,033,712 | 19,812,648 |
| Other regions | 29,536 | 26,464 |
| | <u>19,063,248</u> | <u>19,839,112</u> |

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

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|-----------------|---------------------------------------|-------------------------|
| Hong Kong | 6 | – |
| Mainland, China | 30,344 | 25,287 |
| | <u>30,350</u> | <u>25,287</u> |

* Non-current assets excluded financial instruments.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. OTHER INCOME

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|-----------------------------|--------------------------------|-------------------------|
| Continuing operations | | |
| Bank interest income | 2,513 | 10,864 |
| Government grants (Note 28) | 23,845 | 5,028 |
| Others | 2,094 | 4,674 |
| | 28,452 | 20,566 |

9. FINANCE COSTS

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|--------------------------------|--------------------------------|-------------------------|
| Continuing operations | | |
| Interest on: | | |
| Bank borrowings | 16,603 | 8,818 |
| Loan from related parties | – | 20,394 |
| Discounted bills with recourse | 18,269 | 14,852 |
| Guarantee fee | 6,145 | 8,364 |
| | 41,017 | 52,428 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. INCOME TAX EXPENSES

| | 2016 HK\$'000 | 2015 HK\$'000 |
|-----------------------------------|--------------------------------|------------------|
| Continuing operations | | |
| Current tax: | | |
| Hong Kong Profits Tax | | |
| – Provision for the year | 623 | 882 |
| – Overprovision in prior years | (20) | – |
| | 603 | 882 |
| PRC Enterprise Income Tax (“EIT”) | | |
| – Provision for the year | 84,674 | 70,510 |
| – Underprovision in prior years | 125 | 213 |
| | 84,799 | 70,723 |
| | 85,402 | 71,605 |

Note:

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on EIT Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rates of Changhong IT Information Products Co., Ltd. (“CHIT”), Changhong IT Digital Technology Co., Ltd. (“Changhong IT Digital”) and Beijing Changhong IT Intelligence System Co., Ltd are 25% for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. INCOME TAX EXPENSES (Continued)

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

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Continuing operations | | |
| Profit before tax | 310,166 | 270,322 |
| Tax at the domestic income tax rate of 25% (2015: 25%) (Note) | 77,542 | 67,581 |
| Tax effect of income not taxable for tax purpose | (401) | (1,232) |
| Tax effect of expenses not deductible for tax purpose | 8,156 | 5,043 |
| Underprovision in prior years | 105 | 213 |
| Income tax expenses | 85,402 | 71,605 |

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

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by 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 accumulated profits of the PRC subsidiaries amounting to approximately HK\$1,203,934,000 (2015: approximately HK\$1,025,903,000) 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.

11. DISPOSAL OF A SUBSIDIARY/DISPOSAL GROUP HELD FOR SALE

During the year ended 31 December 2015, the Group ceased its operation in trading of consumer electronic products in Hong Kong that is classified as Consumer Electronic Products segment.

Accordingly, the operating results of the trading of consumer electronic products for both years in Hong Kong are presented as discontinued operation in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DISPOSAL OF A SUBSIDIARY/DISPOSAL GROUP HELD FOR SALE *(Continued)*

On 14 December 2016, the Group entered into a sale and purchase agreement with an independent third party under which the Group disposed of its entire equity interests in CHOD at a consideration of HK\$100 (the "Disposal"). The Disposal was completed on 21 December 2016, on which the control over CHOD was passed to the acquirer.

Profit (loss) for the period/year of the Consumer Electronic Products Segment were as follows:

| | Period from 1 January 2016 to 31 December 2016 HK\$'000 | Year ended 31 December 2015 HK\$'000 |
|-----------------------------------|--|---|
| Profit (loss) for the period/year | 465 | (66,968) |
| Gain on Disposal | <u>7,542</u> | <u>–</u> |
| | <u>8,007</u> | <u>(66,968)</u> |

Analysis of assets and liabilities over which control was lost:

| | 21 December 2016 HK\$'000 |
|---------------------------------------|--|
| Bank balances and cash | 2 |
| Trade and bills payables | (7,845) |
| Provision | (713) |
| Other payables | (488) |
| Customer deposits | <u>(498)</u> |
| Net liabilities disposed of | <u>(9,542)</u> |
| Gain on disposal of CHOD: | |
| Consideration received | – |
| Less: legal and professional fees | (2,000) |
| Net liabilities disposed of | <u>9,542</u> |
| Gain on disposal | <u>7,542</u> |
| Net cash outflow arising on disposal: | |
| Cash consideration | – |
| Bank balances and cash disposed of | <u>(2)</u> |
| | <u>(2)</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DISPOSAL OF A SUBSIDIARY/DISPOSAL GROUP HELD FOR SALE *(Continued)*

The results of the Consumer Electronic Products segment for the period/year were as follows:

| | Period from 1 January 2016 to 21 December 2016 <i>HK\$'000</i> | Year ended 31 December 2015 <i>HK\$'000</i> |
|--|---|--|
| Revenue | 371 | 146,495 |
| Cost of sales | (728) | (160,265) |
| Gross loss | (357) | (13,770) |
| Other income | 102 | 44 |
| Other gains and losses | 2,974 | (48,594) |
| Distribution and selling expenses | – | (794) |
| Administrative expenses | (2,252) | (3,854) |
| Finance costs | (2) | – |
| Profit (loss) before tax | 465 | (66,968) |
| Income tax expenses | – | – |
| Profit (loss) for the period/year from discontinued operation (attributed to owners of the Company) | 465 | (66,968) |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DISPOSAL OF A SUBSIDIARY/DISPOSAL GROUP HELD FOR SALE *(Continued)*

Profit (loss) for the period/year from discontinued operation has been arrived at after charging (crediting):

| | Period from 1 January 2016 to 21 December 2016 <i>HK\$'000</i> | Year ended 31 December 2015 <i>HK\$'000</i> |
|---|--|--|
| Cost of inventories recognised as an expense | <u>728</u> | <u>160,265</u> |
| Staff costs | | |
| – Salaries and related staff costs | 322 | 870 |
| – Retirement benefits scheme contributions | <u>11</u> | <u>34</u> |
| | <u>333</u> | <u>904</u> |
| Reversal of provision <i>(Note)</i> | (3,043) | – |
| Waive of trade payables | (31) | (7,041) |
| Loss on disposal of plant and equipment | 2 | – |
| Depreciation | 5 | 9 |
| Auditor's remuneration | – | 200 |
| Bad debts directly written off | 27 | – |
| Impairment loss on trade receivables | – | 55,489 |
| Exchange loss, net | 40 | 146 |
| Minimum lease payments under operating leases in respect of office premises | – | 1,234 |
| Bank interest income | <u>–</u> | <u>(1)</u> |
| | <u>(3,145)</u> | <u>(25,608)</u> |
| Net cash used in operating activities | (3,145) | (25,608) |
| Net cash generated from investing activities | 8 | 1 |
| Net cash generated from financing activities | <u>2,448</u> | <u>17,751</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DISPOSAL OF A SUBSIDIARY/DISPOSAL GROUP HELD FOR SALE *(Continued)*

The major classes of assets and liabilities of the discontinued operation as at 31 December 2015, which have been presented separately in the consolidated statement of financial position, are as follows:

| | <i>HK\$'000</i> |
|---|-----------------|
| Plant and equipment | 15 |
| Inventories | 728 |
| Prepayments, deposits and other receivables | 716 |
| Bank balances and cash | 691 |
| Total assets classified as held for sale | 2,150 |
| Trade and bills payables | 9,575 |
| Provision (Note) | 3,756 |
| Other payables | 972 |
| Customer deposits | 498 |
| Total liabilities associated with assets classified as held for sale | 14,801 |

Note:

On 16 June 2015, certain purported suppliers of CHOD had made visits to the office of CHOD to seek for outstanding payments resulted from misappropriation of assets by an ex-employee. Details are set out in the Company's announcements dated 19 June 2015, 20 July 2015 and 19 October 2015.

On 31 December 2015, there were certain outstanding claims from purported suppliers with total amount of approximately HK\$9,407,000. In the opinion of directors of the Company, an additional provision of approximately HK\$3,756,000 was made for these claims. These have been recognised in the liabilities associated with assets classified as held for sale discontinued operation included in the consolidated statement of financial position.

During the current year, CHOD entered into settlement agreements with the purported suppliers in respect of their current claims. CHOD has mutually agreed with majority of these purported suppliers for the settlement amounts and the excessive provision of approximately HK\$3,043,000 was subsequently reversed in 2016.

Upon the completion of the Disposal, the Company ceased to hold any interest in CHOD. CHOD had no significant impact on the Group's operating, investing and financing cash flows for the year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. PROFIT FOR THE YEAR

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

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|--------------------------------|------------------|
| Depreciation for plant and equipment | 7,167 | 8,495 |
| Auditor's remuneration | 2,166 | 1,530 |
| Directors' emoluments | 9,993 | 11,337 |
| Cost of inventories recognised as an expense | 18,306,118 | 19,030,068 |
| Staff costs, including directors' emoluments | | |
| – Salaries and related staff costs | 196,275 | 187,481 |
| – Retirement benefits scheme contributions | 39,943 | 44,854 |
| | 236,218 | 232,335 |
| Exchange loss, net | 6,438 | 28,428 |
| (Reversal of allowance) allowance for inventories, net (included in cost of sales) | (1,427) | 1,680 |
| Impairment loss on trade receivables, net | 12,854 | 9,737 |
| Bad debts directly written off | 1,490 | – |
| Research and development expenses (Note) | 14,314 | 17,451 |
| Gain on disposal of plant and equipment | 7 | 54 |
| Minimum lease payments in respect of rented premises | 12,930 | 14,303 |

Note: Included in the research and development costs, approximately HK\$10,312,000 (2015: HK\$13,925,000) are related to staff costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. DIRECTORS', CHIEF EXECUTIVE AND EMPLOYEES' EMOLUMENTS

Directors' and senior management'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 2016

| | Fees <i>HK\$'000</i> | Salaries and allowances <i>HK\$'000</i> | Retirement benefits scheme contributions <i>HK\$'000</i> | Performance related incentive payments <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------|---|--|--|--------------------------|
| Executive directors | | | | | |
| Ms. Shi Ping | - | - | - | - | - |
| Mr. Tang Yun | - | - | - | - | - |
| Mr. Zhao Yong | - | - | - | - | - |
| Mr. Yu Xiao | - | - | - | - | - |
| Mr. Wu Xiangtao | - | - | - | - | - |
| Mr. Zhu Jianqiu | - | 1,248 | 89 | 7,916 | 9,253 |
| Sub-total | - | 1,248 | 89 | 7,916 | 9,253 |
| Independent non-executive directors | | | | | |
| Mr. Jonathan Chan Ming Sun | 200 | - | - | - | 200 |
| Mr. Robert Ip Chun Chung | 180 | - | - | - | 180 |
| Mr. Sun Dongfeng | 180 | - | - | - | 180 |
| Mr. Cheng Yuk Kin | 180 | - | - | - | 180 |
| Sub-total | 740 | - | - | - | 740 |
| Total | | | | | 9,993 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

For the year ended 31 December 2015

| | 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 | | | | | |
| Ms. Shi Ping | - | - | - | - | - |
| Mr. Tang Yun | - | - | - | - | - |
| Mr. Zhao Yong | - | - | - | - | - |
| Mr. Yu Xiao | - | - | - | - | - |
| Mr. Wu Xiangtao | - | - | - | - | - |
| Mr. Zhu Jianqiu | - | 1,269 | 76 | 9,252 | 10,597 |
| Sub-total | - | 1,269 | 76 | 9,252 | 10,597 |
| Independent non-executive directors | | | | | |
| Mr. Jonathan Chan Ming Sun | 200 | - | - | - | 200 |
| Mr. Robert Ip Chun Chung | 180 | - | - | - | 180 |
| Mr. Sun Dongfeng | 180 | - | - | - | 180 |
| Mr. Cheng Yuk Kin | 180 | - | - | - | 180 |
| Sub-total | 740 | - | - | - | 740 |
| Total | | | | | 11,337 |

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

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

Mr. Zhu Jianqiu is entitled to bonus payments which are determined based on a percentage of the Group's financial performance, including revenue and profit after tax for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Five highest paid individuals

Of the five individuals with the highest emoluments in this Group, one (2015: one) was a director of the Company whose emoluments are included in the disclosure as above. The emoluments of the remaining four (2015: four) individuals who are neither a director nor chief executive of the Company were as follows:

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Salaries and other allowances | 10,490 | 10,415 |
| Retirement benefit scheme contributions | 324 | 254 |
| | 10,814 | 10,669 |

The emolument fell within the following bands:

| | Number of individuals | |
|--------------------------------|------------------------------|------|
| | 2016 | 2015 |
| Nil to HK\$1,000,000 | – | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | – |
| HK\$2,000,001 to HK\$2,500,000 | 1 | 1 |
| HK\$2,500,001 to HK\$3,000,000 | 1 | 1 |
| HK\$4,000,001 to HK\$4,500,000 | 1 | – |
| HK\$4,500,001 to HK\$5,000,000 | – | 1 |
| | 4 | 4 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors', chief executive and employee's emoluments

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. In the years ended 31 December 2016 and 2015, five directors, Ms. Shi Ping, Mr. Wu Xiangtao, Mr. Zhao Yong, Mr. Zhu Jianqiu and Mr. Yu Xiao waived emoluments of HK\$60,000 each (2015: HK\$60,000 each). During the year ended 31 December 2016, a director, Mr. Tang Yun waived emoluments of HK\$20,000 (2015: HK\$60,000).

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

14. DIVIDENDS

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Dividends recognised as distribution during the year: | | |
| 2015 Final – HK2 (2015: Interim HK2) cents per share | 51,410 | 51,410 |

The directors recommend the payment of a final dividend of HK3 cents (2015 Final: HK2 cents) per share in respect of the year ended 31 December 2016 which is subject to approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. EARNINGS PER SHARE

From continuing and discontinued operations

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

| For the year ended 31 December 2016 | Continuing operations HK\$'000 | Discontinued operations HK\$'000 | Total HK\$'000 |
|--|---|---|---------------------------|
| Earnings | | | |
| Profit for the year attributable to owners of the Company | 224,764 | 8,007 | 232,771 |
| Less: Earnings attributable to convertible preference shares | (97,570) | (3,476) | (101,046) |
| Earnings for the purpose of basic earnings per share | 127,194 | 4,531 | 131,725 |
| Add: Earnings attributable to convertible preference shares | 97,570 | 3,476 | 101,046 |
| Earnings for the purpose of diluted earnings per share | 224,764 | 8,007 | 232,771 |
| | | | |
| For the year ended 31 December 2015 | Continuing operations HK\$'000 | Discontinued operations HK\$'000 | Total HK\$'000 |
| Earnings | | | |
| Profit (loss) for the year attributable to owners of the Company | 198,717 | (66,968) | 131,749 |
| Less: (Earnings) loss attributable to convertible preference shares | (86,263) | 29,071 | (57,192) |
| Earnings (loss) for the purpose of basic earnings (loss) per share | 112,454 | (37,897) | 74,557 |
| Add: Earnings (loss) attributable to convertible preference shares | 86,263 | (29,071) | 57,192 |
| Earnings (loss) for the purpose of diluted earnings (loss) per share | 198,717 | (66,968) | 131,749 |
| | 2016 '000 | | 2015 '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 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. PLANT AND EQUIPMENT

| | Furniture, fixtures and equipment <i>HK\$'000</i> | Leasehold improvements <i>HK\$'000</i> | Motor vehicle <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|--|-------------------------------------|--------------------------|
| COST | | | | |
| At 1 January 2015 | 56,644 | 13,566 | 2,563 | 72,773 |
| Additions | 9,667 | – | – | 9,667 |
| Disposals | (5,849) | (305) | (5) | (6,159) |
| Reclassified as discontinued operation | (232) | – | (368) | (600) |
| Exchange realignment | (3,045) | (712) | (119) | (3,876) |
| At 31 December 2015 and 1 January 2016 | 57,185 | 12,549 | 2,071 | 71,805 |
| Additions | 15,143 | – | – | 15,143 |
| Disposals | (3,708) | – | – | (3,708) |
| Exchange realignment | (3,639) | (789) | (131) | (4,559) |
| At 31 December 2016 | 64,981 | 11,760 | 1,940 | 78,681 |
| DEPRECIATION | | | | |
| At 1 January 2015 | 38,601 | 7,089 | 1,929 | 47,619 |
| Charge for the year | 5,514 | 2,714 | 276 | 8,504 |
| Eliminated on disposals | (5,849) | (305) | (5) | (6,159) |
| Reclassified as discontinued operation | (217) | – | (368) | (585) |
| Exchange realignment | (2,293) | (472) | (96) | (2,861) |
| At 31 December 2015 and 1 January 2016 | 35,756 | 9,026 | 1,736 | 46,518 |
| Charge for the year | 5,439 | 1,395 | 333 | 7,167 |
| Eliminated on disposals | (2,009) | – | – | (2,009) |
| Exchange realignment | (2,572) | (644) | (129) | (3,345) |
| At 31 December 2016 | 36,614 | 9,777 | 1,940 | 48,331 |
| CARRYING VALUES | | | | |
| At 31 December 2016 | 28,367 | 1,983 | – | 30,350 |
| At 31 December 2015 | 21,429 | 3,523 | 335 | 25,287 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. 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 years |
| Leasehold improvements | over the term of the lease ranging from 2 to 5 years |
| Motor vehicle | 3 years |

17. AVAILABLE-FOR-SALE INVESTMENT

| | 2016 HK\$'000 | 2015 HK\$'000 |
|------------------------------|--------------------------------|------------------|
| Unlisted investment, at cost | 9,223 | 9,849 |

On 11 April 2015, Changhong IT Digital, an indirect wholly-owned subsidiary of the Company, entered into contracts with an independent third parties to invest RMB27,500,000 (approximately HK\$32,832,000) 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”), in which Changhong IT Digital holds 11% of the total partnership interest. As at 31 December 2016, Changhong IT Digital has paid RMB8,250,000 (approximately HK\$9,223,000) to Sichuan Hongyun.

The available-for-sale investment is investment in unlisted equity securities issued by a private entity incorporated in the PRC. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

* English name is for identification purpose only.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. TRADE AND BILLS RECEIVABLES

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|------------------------------------|--------------------------------|-------------------------|
| Trade receivables | 1,376,794 | 1,369,829 |
| Less: Allowance for doubtful debts | (60,671) | (55,414) |
| | 1,316,123 | 1,314,415 |
| Bills receivables | 84,703 | 140,865 |
| Trade and bills receivables | 1,400,826 | 1,455,280 |

The Group allows a credit period ranging from 30-180 days (2015: 30-180 days) to its third party trade customers. 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 twice a year. 77% (2015: 69%) of the trade and bills receivables are neither past due nor impaired.

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

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 699,957 | 587,498 |
| 31 – 60 days | 403,673 | 417,457 |
| 61 – 90 days | 93,879 | 185,940 |
| 91 – 180 days | 59,860 | 181,589 |
| 181– 365 days | 51,603 | 45,160 |
| Over 1 year | 91,854 | 37,636 |
| | 1,400,826 | 1,455,280 |

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of approximately HK\$278,158,000 (2015: HK\$410,580,000) which were past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. TRADE AND BILLS RECEIVABLES (Continued)

Ageing of trade and bills receivables which are past due but not impaired:

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 155,281 | 246,792 |
| 30 –60 days | 23,243 | 62,556 |
| 61 –90 days | 17,092 | 14,948 |
| 91 – 180 days | 27,186 | 28,818 |
| Over 180 days | 55,356 | 57,466 |
| | 278,158 | 410,580 |

Movement of allowance for doubtful debts

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Balance at beginning of the year | 55,414 | 48,714 |
| Impairment loss on trade receivables | 12,854 | 12,726 |
| Reversal of impairment loss on trade receivables | – | (2,989) |
| Amounts written off as uncollectible | (3,358) | – |
| Exchange realignment | (4,239) | (3,037) |
| Balance at the end of the year | 60,671 | 55,414 |

Included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK\$60,671,000 (2015: HK\$55,414,000) as at 31 December 2016, which have been in severe financial difficulties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|----------------------|---------------------------------------|-------------------------|
| Prepayments | 1,976 | 705 |
| Other tax receivable | 10,957 | – |
| Deposits | 6,196 | 8,214 |
| Other receivables | 32,042 | 17,646 |
| | 51,171 | 26,565 |

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

20. INVENTORIES

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|----------------------|---------------------------------------|-------------------------|
| Trading merchandises | 1,318,904 | 1,613,065 |

21. 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 1.265% (2015: 0.30% to 1.10%) per annum.

At 31 December 2016 and 2015, pledged bank deposits were pledged to secure general banking facilities granted to the Group and did not carry any interest rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. TRADE AND BILLS PAYABLES

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

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | 1,280,088 | 1,638,918 |
| 31 – 60 days | 250,823 | 61,026 |
| 61 – 90 days | 21,783 | 277,646 |
| 91 – 180 days | 20,057 | 3,483 |
| 181 – 365 days | 14,716 | 6,151 |
| Over 1 year | 19,548 | 8,102 |
| | <u>1,607,015</u> | <u>1,995,326</u> |

The credit period on purchase of goods is ranging from 30 – 120 days (2015: 30 – 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

23. OTHER PAYABLES

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Accruals | 22,220 | 19,803 |
| Provision for social insurance and housing provident (Note) | 40,799 | 40,190 |
| Other tax payables | 105,671 | 25,168 |
| Salaries payables | 45,480 | 41,313 |
| Interest payables | 6,050 | 6,454 |
| Other payables | 17,890 | 7,843 |
| | <u>238,110</u> | <u>140,771</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. OTHER PAYABLES *(Continued)*

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

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

As at 31 December 2016, The Group has total accumulated unpaid amount of social insurance and housing provident fund of approximately HK\$40,799,000 (2015: HK\$40,190,000). Provisions for the unpaid amounts had been recognised and included in other payables. As at 31 December 2016, 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 2016 and 2015, no such request was received by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. SHARE CAPITAL/CONVERTIBLE PREFERENCE SHARES

| | Number of shares | | Share capital | |
|--|---------------------|---------------------|-------------------------|-------------------------|
| | 2016 <i>'000</i> | 2015 <i>'000</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
| Authorised: | | | | |
| Ordinary shares of HK\$0.025 each At the beginning and at the end of the financial year | <u>5,000,000</u> | <u>5,000,000</u> | <u>125,000</u> | <u>125,000</u> |
| Convertible preference shares of HK\$0.025 each At the beginning and at the end of the financial year | <u>3,000,000</u> | <u>3,000,000</u> | <u>75,000</u> | <u>75,000</u> |

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

| | Number of shares | | Share capital | |
|------------------------------|---------------------|---------------------|-------------------------|-------------------------|
| | 2016 <i>'000</i> | 2015 <i>'000</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
| Issued and fully paid: | | | | |
| At beginning and end of year | <u>1,454,652</u> | <u>1,454,652</u> | <u>36,366</u> | <u>36,366</u> |

| | Number of shares | | Share capital | |
|------------------------------|---------------------|---------------------|-------------------------|-------------------------|
| | 2016 <i>'000</i> | 2015 <i>'000</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
| At beginning and end of year | <u>1,115,868</u> | <u>1,115,868</u> | <u>27,897</u> | <u>27,897</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. 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. 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 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 not entitled to participate of such assets, by reference to the aggregate nominal amount of shares held by them respectively.

25. DEFERRED TAXATION

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. BORROWINGS

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Loan from a fellow subsidiary | – | 119,389 |
| Bank borrowings | 315,073 | 405,536 |
| | 315,073 | 524,925 |
| Secured | 17,703 | 270,962 |
| Unsecured | 297,370 | 253,963 |
| | 315,073 | 524,925 |
| Carrying amount repayable*: Within one year | 315,073 | 524,925 |

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

The loan from a fellow subsidiary represents the advance from 四川長虹集團財務有限公司 (“長虹財務”) as at 31 December 2015. The balance was unsecured, bearing interest at a fixed rate at 4.30% per annum and repayable within one year. The entire amount had been settled during the current year.

The range of effective interest rates (which are also equal to contracted interest rates) due in the Group's borrowing for the year ended 31 December 2016 are fixed from 3.9% to 4.6% (2015: 3.9% to 5.6%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. RETIREMENT BENEFIT SCHEME

The Group has joined the Mandatory Provident Fund Scheme (“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 represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2016, contributions of the Group under the MPF Scheme amounted to approximately HK\$59,000 (2015: HK\$79,000).

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 2016, contributions of the Group under the PRC Pension Scheme amounted to approximately HK\$39,884,000 (2015: HK\$44,775,000).

The total cost charged to the consolidated statement of profit or loss of approximately HK\$39,943,000 for the year ended 31 December 2016 (2015: HK\$44,854,000), represent contributions payable to these schemes by the Company during the year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. GOVERNMENT GRANTS

The movement of government grants is as follows:

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Balance as at 1 January | 16,310 | 21,044 |
| Receipt of government grants | 14,228 | 629 |
| Recognition of other income | (23,845) | (5,028) |
| Exchange realignment | (409) | (335) |
| Balance as at 31 December | 6,284 | 16,310 |
| Less: amounts to be recognised as government grants within one year, classified as current liabilities | – | (11,585) |
| Amounts to be recognised as government grants after one year, classified as non-current liabilities | 6,284 | 4,725 |

The Group received government grants of approximately HK\$10,085,000 during the year ended 31 December 2016 (2015: Nil) 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 income in the current year of approximately HK\$21,620,000 (2015: HK\$562,000).

The Group received government grants of approximately HK\$4,143,000 during the year ended 31 December 2016 (2015: HK\$629,000) 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 income in the current year of approximately HK\$2,225,000 (2015: HK\$4,466,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. CONTINGENT LIABILITIES

During the years ended 31 December 2016 and 2015, the Group (i) endorsed certain bills receivable for the settlement of trade and other payables; and (ii) discounted certain bills receivable 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 receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised on the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of each reporting period are as follows:

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Settlement of trade and other payables | 20,698 | 42,980 |
| Discounted bills for raising of cash | 121,187 | 317,002 |
| Outstanding endorsed and discounted bills receivable with recourse | 141,885 | 359,982 |

The outstanding endorsed and discounted bills receivable are aged within 180 days at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

30. OPERATING LEASE COMMITMENTS

The Group as lessee

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Minimum lease payments under operating lease during the year | 12,930 | 15,537 |

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

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Within one year | 7,486 | 10,772 |
| In the second to fifth year, inclusive | 3,891 | 2,805 |
| | 11,377 | 13,577 |

Leases are negotiated and rentals are fixed for terms of 2 to 5 years (2015: 2 to 5 years).

31. CAPITAL COMMITMENT

| | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Commitment contracted but not provided for in respect of: – Capital contribution to available-for-sale investment | 21,520 | 22,983 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. 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 debt, which includes borrowings, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---|---------------------------------------|-------------------------|
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | 2,433,327 | 2,517,094 |
| Available-for-sale investment | 9,223 | 9,849 |
| | <u>2,442,550</u> | <u>2,526,943</u> |
| Financial liabilities | | |
| At amortised cost | <u>2,203,414</u> | <u>2,730,644</u> |

Financial risk management objectives and policies

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 1% (2015: 1%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 99% (2015: 99%) of cost are denominated in the group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities other than the functional currency of the entity to which they related at the reporting date are as follows:

| | Assets | | Liabilities | |
|------|------------------|------------------|------------------|------------------|
| | 2016 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 |
| RMB | 451 | 222 | - | - |
| HK\$ | - | 3,610 | - | 3,307 |
| USD | <u>62,112</u> | <u>9,091</u> | <u>62,145</u> | <u>51,045</u> |

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currencies of HK\$ 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% (2015: 10%) increase and decrease in the functional currency of group entities against the relevant foreign currencies. 10% (2015: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 10% (2015: 10%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit (2015: an increase in post-tax profit) where functional currency of group entities strengthen 10% (2015: 10%) against the relevant currency. For a 10% (2015: 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.

| | HK\$ Impact | | USD Impact | |
|----------------|------------------|------------------|------------------|------------------|
| | 2016 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 |
| Profit or loss | - | (25) | 2,772 | 3,147 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest-rate risk in relation to fixed rate loan from a fellow subsidiary and fixed rate borrowings from banks (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 21 for details of these balances).

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. 100 basis points (2015: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. 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 2016, if interest rates on bank deposits had been 100 basis points (2015: 100 basis points) higher/lower and all other variables were held constant, post-tax profit for the year ended 31 December 2016 would increase/decrease by HK\$461,000 (2015: HK\$Nil). This is mainly attributable to the Group's exposure to interest rates on its variable-rate short-term bank deposits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 19% (2015: 16%) and 33% (2015: 20%) of the total trade and bills receivables were due from the Group's largest customer and the five largest customers respectively which are mainly located in the PRC.

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

Liquidity risk

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

The Group currently relies on borrowings as a significant source of liquidity. As at 31 December 2016, the Group has short-term bank loan facilities of HK\$1,329,633,000 (31 December 2015: HK\$200,237,000).

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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

| | Weighted average effective interest rate % | Repayable on demand or less than 1 month HK\$'000 | 1-3 months HK\$'000 | Over 3 months but less than 1 year HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|---|--|---|------------------------|---|---|--------------------------------|
| 2016 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Trade and bills payables | - | 1,607,015 | - | - | 1,607,015 | 1,607,015 |
| Other payables | - | 17,890 | - | - | 17,890 | 17,890 |
| Amounts due to related companies | - | 13,912 | - | - | 13,912 | 13,912 |
| Customer deposits | - | 249,524 | - | - | 249,524 | 249,524 |
| Borrowings | 4.36 | 147,522 | 169,250 | - | 316,772 | 315,073 |
| | | <u>2,035,863</u> | <u>169,250</u> | <u>-</u> | <u>2,205,113</u> | <u>2,203,414</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

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 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|---|--|---|------------------------|---|---|--------------------------------|
| 2015 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Trade and bills payables | - | 1,995,326 | - | - | 1,995,326 | 1,995,326 |
| Other payables | - | 7,843 | - | - | 7,843 | 7,843 |
| Amounts due to related companies | - | 8,929 | - | - | 8,929 | 8,929 |
| Customer deposits | - | 193,621 | - | - | 193,621 | 193,621 |
| Borrowings | 4.11 | 206,589 | 320,952 | - | 527,541 | 524,925 |
| | | <u>2,412,308</u> | <u>320,952</u> | <u>-</u> | <u>2,733,260</u> | <u>2,730,644</u> |

Fair values of financial assets and liabilities

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. RELATED PARTY DISCLOSURES

(a) 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 | 2016 HK\$'000 | 2015 HK\$'000 |
|---|-------|----------------------------------|------------------|------------------|
| Immediate and ultimate holding company of the Group | | | | |
| Sichuan Changhong | (i) | Sales of goods | 20,269 | 57,546 |
| | | Administrative expenses | 30 | 17 |
| | | – rental expenses | | |
| | | Finance cost – interest expenses | – | 3,034 |
| Shareholder of immediate and ultimate holding company of the Group | | | | |
| 四川長虹電子控股集團有限公司 | (ii) | Finance cost – guarantee charge | 6,145 | 8,364 |
| | | Guarantee to suppliers | 1,716,273 | 1,652,490 |
| | | – Maximum amount granted | | |
| Fellow subsidiaries of the Company | | | | |
| 四川虹信軟件有限公司 | (iii) | Sales of goods | 3,962 | 3,516 |
| 北京長虹科技有限公司 | (iii) | Administrative expenses | 5,901 | 6,541 |
| | | – rental expenses | | |
| | | Sales of goods | 5 | 6 |
| 北京京東方長虹網路科技 有限責任公司 | (iii) | Sales of goods | 81 | – |
| 北京美菱電器營銷有限公司 | (iii) | Sales of goods | 22 | – |
| 四川長虹電子系統有限公司 | (iii) | Sales of goods | 9,067 | 4,395 |
| 四川虹微技術有限公司 | (iii) | Sales of goods | 8 | 2,736 |
| | | Purchase of goods | 424 | – |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. RELATED PARTY DISCLOSURES (Continued)

(a) (Continued)

| Name of company | Notes | Nature of transaction | 2016 HK\$'000 | 2015 HK\$'000 |
|---|-------|--|------------------|------------------|
| Fellow subsidiaries of the Company (Continued) | | | | |
| 四川長虹空調有限公司 | (iii) | Sales of goods | 7 | 11 |
| Changhong (Hong Kong) Trading Limited | (iii) | Sales of goods | – | 2,382 |
| 四川長虹電子部品有限公司 | (iii) | Sales of goods | – | 16,182 |
| Sichuan Changhong Network Technologies Co., Ltd. | (iii) | Sales of goods | 10 | – |
| | | Administrative expense | 34 | – |
| 四川快益點電器服務連鎖有限公司 | (iii) | Sales of goods | 45 | 182 |
| 四川長虹點點幫科技有限公司 | (iii) | Sales of goods | – | 122 |
| 成都長虹電子科技有限責任公司 | (iii) | Administrative expenses – rental expenses | 1,511 | 1,331 |
| | | Sales of goods | – | 330 |
| 四川長虹教育科技有限公司 | (iii) | Sales of goods | 30,649 | 4,287 |
| 四川長虹物業服務有限公司 | (iii) | Administrative expense | 235 | – |
| | | – rental expenses | – | – |
| 四川長虹通信科技有限公司 | (iii) | Administrative expense | 7 | – |
| | | – transportation | – | – |
| 四川長虹民生物流有限責任公司 | (iii) | Administrative expense | 384 | – |
| | | – agency fee | – | – |
| Related company of the Group | | | | |
| 長虹財務 | (iv) | Finance cost – interest expenses | – | 17,360 |
| | | Sales of goods | 3,475 | – |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. RELATED PARTY DISCLOSURES (Continued)

(b) The Group allows a credit period of 55 days for sales to its related parties. As at 31 December 2016, the Group had the following balances with related parties:

| Name of company | Notes | Nature of transaction | 2016 HK\$'000 | 2015 HK\$'000 |
|--|-------|-----------------------------|------------------|------------------|
| Immediate and ultimate holding company of the Group | | | | |
| Sichuan Changhong | (i) | Trade and bills receivables | | |
| | | Within 30 days | 3,552 | 362 |
| | | 31 – 60 days | 4,790 | 71 |
| | | 61 – 90 days | – | 8,226 |
| | | 91 – 180 days | – | 849 |
| | | 181 – 365 days | – | 389 |
| | | | <u>8,342</u> | <u>9,897</u> |
| | | Past due but not impaired: | | |
| | | 61 – 90 days | – | 8,226 |
| | | 91 – 180 days | – | 849 |
| | | 181 – 365 days | – | 389 |
| | | | <u>–</u> | <u>9,464</u> |
| Fellow subsidiaries of the Company | | | | |
| 四川虹信軟件有限公司 | (iii) | Trade and bills receivables | | |
| | | Within 30 days | 52 | – |
| 四川長虹電子系統有限公司 | (iii) | Trade and bills receivables | | |
| | | Within 30 days | 5,925 | – |
| | | 31 – 60 days | 3,611 | – |
| | | | <u>9,536</u> | <u>–</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. RELATED PARTY DISCLOSURES (Continued)

(b) (Continued)

| Name of company | Notes | Nature of transaction | 2016 HK\$'000 | 2015 HK\$'000 |
|---|-------|---|------------------|------------------|
| Fellow subsidiaries of the Company | | | | |
| <i>(Continued)</i> | | | | |
| 四川長虹空調有限公司 | (iii) | Trade and bills receivables Within 30 days | – | 8 |
| 四川快益點電器服務連鎖有限公司 | (iii) | Trade and bills receivables 31 – 60 days | – | 48 |
| Total amounts due from related companies – trade and bills receivables | | | 17,930 | 9,953 |
| Shareholder of immediate and ultimate holding company of the Group | | | | |
| 四川長虹電子控股集團有限公司 | (ii) | Other payables (v) | 9,758 | 4,223 |
| Fellow subsidiary of the Company | | | | |
| 北京長虹科技有限公司 | (iii) | Other payables (v) | 4,154 | 4,706 |
| Total amounts due to related companies – other payables | | | 13,912 | 8,929 |

Notes:

- (i) Sichuan Changhong holds approximately 69.32% equity interest of the Company.
- (ii) 四川長虹電子控股集團有限公司 holds approximately 23.20% equity interest of Sichuan Changhong.
- (iii) Sichuan Changhong has controlling interests in these companies.
- (iv) Sichuan Changhong holds 50% equity interests in 長虹財務.
- (v) The amounts are unsecured, non-interest bearing and repayable on demand.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. 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:

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--------------------------|--------------------------------|------------------|
| Short-term benefits | 21,245 | 22,845 |
| Post-employment benefits | 485 | 518 |
| | 21,730 | 23,363 |

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

General information of subsidiaries

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

| Name of subsidiaries | Place of incorporation/ registration and operation | Class of shares held | Paid up issued/ registered capital | Proportion ownership interest held by the Company | | | | Proportion of voting power held by the Company | | | | Principal activities |
|---|--|-------------------------|---|--|-----------|------------|-----------|---|-----------|------------|-----------|--|
| | | | | Directly | | Indirectly | | Directly | | Indirectly | | |
| | | | | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | 2016 % | 2015 % | |
| CHOD | Hong Kong | Ordinary | HK\$100,000 | - <i>(Note)</i> | 100 | - | - | - <i>(Note)</i> | 100 | - | - | Trading of consumer electronic products and related parts and components |
| Changhong (Hong Kong) Enterprises Limited | Hong Kong | Ordinary | HK\$10,001 | - | - | 100 | 100 | - | - | 100 | 100 | Investment holding |
| CHIT | PRC | - | RMB 200,000,000 | - | - | 100 | 100 | - | - | 100 | 100 | Provision of professional integrated IT solutions and services and distribution of consumer digital products |
| Changhong IT Digital Technology Co., Ltd. 四川長虹佳華數字技術有限公司 | PRC | - | RMB 50,000,000 | - | - | 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 | - | RMB 50,000,000 | - | - | 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 | - | HK\$ 10,000,000 | 100 | 100 | - | - | 100 | 100 | - | - | Provision of professional integrated IT solutions and services and distribution of consumer digital products |

Note: CHOD has been disposed of on 21 December 2016 and details have set out in Note 11.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

General information of subsidiaries *(Continued)*

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

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

Composition of the Group

At the end of the reporting period, the Company has 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 | |
|----------------------|---------------------------------------|-------------------------------------|----------|
| | | 2016 | 2015 |
| Investment holding | British Virgin Island | <u>2</u> | <u>2</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Non-current assets | | |
| Property and equipment | 52 | – |
| Investments in subsidiaries (Note a) | <u>1,241,751</u> | <u>1,241,851</u> |
| | <u>1,241,803</u> | <u>1,241,851</u> |
| Current assets | | |
| Prepayments, deposits and other receivables | 664 | 366 |
| Amounts due from subsidiaries (Note b) | 2 | 2 |
| Bank balances and cash | <u>372</u> | <u>2,473</u> |
| | <u>1,038</u> | <u>2,841</u> |
| Current liabilities | | |
| Other payables | 7,186 | 3,307 |
| Amounts due to subsidiaries (Note b) | <u>136,838</u> | <u>86,183</u> |
| | <u>144,024</u> | <u>89,490</u> |
| Net current liabilities | <u>(142,986)</u> | <u>(86,649)</u> |
| | <u>1,098,817</u> | <u>1,155,202</u> |
| Capital and reserves | | |
| Share capital | 36,366 | 36,366 |
| Convertible preference shares | 27,897 | 27,897 |
| Reserves (Note c) | <u>1,034,554</u> | <u>1,090,939</u> |
| | <u>1,098,817</u> | <u>1,155,202</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Notes:

- (a) As at 31 December 2016, investments in subsidiaries are carried at cost of HK\$1,241,751,000 (2015: HK\$1,241,851,000).
- (b) The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.
- (c) Movements of reserves during both years are as follows:

| | Share premium <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|---|--|--------------------------|
| At 1 January 2015 | 2,095,051 | – | (915,883) | 1,179,168 |
| Loss and total comprehensive expense for the year | – | – | (36,819) | (36,819) |
| Conversion of share premium to contributed surplus (Note d) | (2,095,051) | 2,095,051 | – | – |
| Dividends recognised as distribution (Note 14) | – | (51,410) | – | (51,410) |
| At 31 December 2015 and 1 January 2016 | – | 2,043,641 | (952,702) | 1,090,939 |
| Loss and total comprehensive expense for the year | – | – | (4,975) | (4,975) |
| Dividends recognised as distribution (Note 14) | – | (51,410) | – | (51,410) |
| At 31 December 2016 | <u>–</u> | <u>1,992,231</u> | <u>(957,677)</u> | <u>1,034,554</u> |

- (d) 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. Details are set out in the Company's announcements dated on 27 March 2015 and 15 May 2015.

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The directors considered that the reclassifications would result in more appropriate manner to reflect the core business of the Group. These reclassifications have no impact on the Group's total equity as at 31 December 2015 or the Group's profit or loss for the years ended 31 December 2015.