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China Touyun Tech Group Limited

中國透雲科技集團有限公司

(Incorporated in Bermuda with limited liability)

Website: www.chinatouyun.com.hk

(Stock Code: 1332)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the “Board”) of China Touyun Tech Group Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2017 together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2017 HK\$'000	2016 HK\$'000
Continuing operations			
Fair value losses on financial assets at fair value through profit or loss, net	4	(80,248)	(361,874)
Revenue	4	397,947	324,251
Cost of sales		(279,925)	(236,457)
Gross profit		118,022	87,794
Other income, gains and losses, net	5	(111,520)	(716,291)
Selling and distribution expenses		(34,170)	(17,568)
Administrative expenses		(138,368)	(74,789)
Finance costs	6	(5,693)	(10,060)
Share of result of a joint venture		2,990	(15,050)
Loss before tax	7	(248,987)	(1,107,838)
Income tax	8	(4,229)	(26)
Loss for the year from continuing operations		(253,216)	(1,107,864)

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Discontinued operations			
Loss for the year from discontinued operations	9	—	(55,959)
Loss for the year		<u>(253,216)</u>	<u>(1,163,823)</u>
Loss attributable to owners of the Company			
— from continuing operations		(245,226)	(1,094,866)
— from discontinued operations		—	(55,959)
Loss for the year attributable to owners of the Company		<u>(245,226)</u>	<u>(1,150,825)</u>
Loss attributable to non-controlling interests from continuing operations			
		(7,990)	(12,998)
Loss for the year attributable to non-controlling interests		<u>(7,990)</u>	<u>(12,998)</u>
		<u>(253,216)</u>	<u>(1,163,823)</u>
Loss per share attributable to owners of the Company			
— from continuing and discontinued operations	11		
Basic and diluted		<u>HK(2.50) cents</u>	<u>HK(17.69) cents</u>
— from continuing operations			
Basic and diluted		<u>HK(2.50) cents</u>	<u>HK(16.83) cents</u>

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss for the year	(253,216)	(1,163,823)
Other comprehensive income/(loss)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
— Changes in fair value	—	(8,800)
— Reclassification adjustments of fair value loss on disposal of available-for-sale investments to profit or loss, net of tax	—	5,390
Exchange differences on translation of foreign operations	<u>7,682</u>	<u>(3,388)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>7,682</u>	<u>(6,798)</u>
Total comprehensive loss for the year	<u>(245,534)</u>	<u>(1,170,621)</u>
Total comprehensive loss attributable to:		
Owners of the Company	(237,544)	(1,157,623)
Non-controlling interests	<u>(7,990)</u>	<u>(12,998)</u>
	<u>(245,534)</u>	<u>(1,170,621)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<i>Non-current assets</i>			
Property, plant and equipment		70,671	27,975
Intangible assets		15,808	2,517
Goodwill	<i>12</i>	201,725	266,514
Interests in a joint venture		141,549	136,026
Available-for-sale investments	<i>13</i>	411,240	430,191
Prepayments		8,772	2,196
Total non-current assets		849,765	865,419
<i>Current assets</i>			
Inventories		22,551	20,925
Trade and bills receivables	<i>14</i>	75,251	64,794
Prepayments, deposits and other receivables		24,917	12,253
Financial assets at fair value through profit or loss	<i>15</i>	14,250	97,500
Restricted deposit	<i>16</i>	10,920	–
Cash and cash equivalents		348,655	206,054
		496,544	401,526
Non-current assets classified as held for sale	<i>17</i>	2,116	–
Total current assets		498,660	401,526
<i>Current liabilities</i>			
Trade and bills payables	<i>18</i>	47,795	25,566
Other payables and accruals		35,884	35,773
Tax payable		4,080	–
Derivative embedded in convertible bond	<i>19</i>	1,827	–
Interest-bearing other borrowings		–	12,022
Obligations under finance lease	<i>20</i>	1,536	–
Total current liabilities		91,122	73,361
Net current assets		407,538	328,165
Total assets less current liabilities		1,257,303	1,193,584
<i>Non-current liabilities</i>			
Deferred tax liabilities		56	172
Convertible bond	<i>19</i>	298,558	–
Obligation under finance lease	<i>20</i>	805	–
		299,419	172
Net assets		957,884	1,193,412

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Equity			
Equity attributable to owners of the parent			
Share capital	<i>21</i>	97,973	97,973
Reserves		859,369	1,086,946
		<u>957,342</u>	<u>1,184,919</u>
Non-controlling interests		542	8,493
		<u>957,884</u>	<u>1,193,412</u>
Total equity		<u>957,884</u>	<u>1,193,412</u>

Notes:

1. CORPORATE AND GROUP INFORMATION

China Touyun Tech Group Limited (the “Company”) was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company with limited liability on 24 October 2011. The principal place of business of the Company is located at 12th Floor, Kwan Chart Tower, 6 Tonnochy Road, Wan Chai, Hong Kong. During the year, the principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are (i) provision of QR codes on product packaging and solutions and online advertising display services; (ii) the manufacture and sale of packaging products; and (iii) investments and trading in securities and money lending.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under the historical cost convention, except for listed equity investments classified as financial assets at fair value through profit or loss, which have been measured at fair value.

These consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the Company’s functional currency. All values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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 above. A change in the ownership interest of a subsidiary, without loss of control, is accounted for an equity transaction.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any investment retained and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The Group's share of components previously recognised in other comprehensive income is reclassified to income statement or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

(b) Changes in accounting policies and disclosures

In the preparation of the consolidated financial statements for the year ended 31 December 2017, the Group has applied, for the first time, the following new and revised standards issued by the HKICPA.

Amendments to HKFRS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	Annual Improvements 2014–2016 Cycle

These new standards and interpretations do not have significant impact to the Group.

3. SEGMENT INFORMATION

The Group has three reportable segments from continuing operations. The segments are managed separately as each business offers different products or provides different services and requires different business strategies. In August 2016, the Group completed the acquisition of 100% equity interest in Apex Capital Business Limited (“Apex”) and its subsidiaries (“Apex Group”). Apex Group is a group of companies engaged in provision of QR code on product packaging and solutions and online advertising display services, and accordingly which forms a new reportable segment to the Group. Comparative information for the Group's operating segment has been restated. The trading of apparel products segment was disposed of on 21 November 2016 and was presented as discontinued operations during the year ended 31 December 2016 and hence the segment information in this note does not include information relating to discontinued operations. Details of discontinued operations are set out in note 9.

The following summary describes the operations in each of the Group's reportable segments:

Continuing operations:

QR code business segment	—	Provision of QR code on product packaging and solutions and online advertising display services
Packaging products segment	—	Manufacture and sale of watch boxes, jewellery boxes, eyewear cases, bags and pouches and display units
Treasury investment segment	—	Investments and trading in securities and money lending

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that finance costs, share of results of a joint venture and head office and corporate income and expenses are excluded from such measurement.

There was no inter-segment sale or transfer during the year (2016: Nil). Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' results that is used by the chief operating decision makers for assessment of segment performance.

	Continuing operations						Total	
	QR code business		Packaging products		Treasury investment		2017	2016
	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group's revenue	78,791	23,072	318,656	294,674	500	6,505	397,947	324,251
Fair value losses on financial assets at fair value through profit or loss, net	-	-	-	-	(80,248)	(361,874)	(80,248)	(361,874)
Segment revenue	<u>78,791</u>	<u>23,072</u>	<u>318,656</u>	<u>294,674</u>	<u>(79,748)</u>	<u>(355,369)</u>	<u>317,699</u>	<u>(37,623)</u>
Segment results	<u>(157,723)</u>	<u>(268,463)</u>	<u>25,947</u>	<u>16,541</u>	<u>(79,874)</u>	<u>(360,884)</u>	<u>(211,650)</u>	<u>(612,806)</u>
Corporate and unallocated income, gains and losses							(5,978)	(452,757)
Corporate and unallocated expenses							(28,656)	(17,165)
Share of result of a joint venture							2,990	(15,050)
Finance costs							(5,693)	(10,060)
Loss before tax							<u>(248,987)</u>	<u>(1,107,838)</u>
Other segment information:								
Capital expenditure								
— operating segment	51,379	4,409	3,662	1,897	-	-	55,041	6,306
— unallocated							25	-
							<u>55,066</u>	<u>6,306</u>
Bank interest income								
— operating segment	160	113	46	95	-	-	206	208
— unallocated							2	-
							<u>208</u>	<u>208</u>
Depreciation								
— operating segment	7,422	991	1,518	1,535	-	-	8,940	2,526
— unallocated							10	-
							<u>8,950</u>	<u>2,526</u>
Amortisation	435	132	-	-	-	-	435	132
Loss/(gain) on disposal of property, plant and equipment	1,633	-	(190)	-	-	-	1,443	-
Impairment loss of/(reversal of) trade receivables, net	17	-	49	(85)	-	-	66	(85)
Other receivables written off	-	1,798	-	-	-	-	-	1,798
Impairment loss of goodwill	104,664	263,558	-	-	-	-	104,664	263,558

Revenue from external customers based on the locations of these customers is analysed as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
QR code business:		
— PRC	<u>78,791</u>	<u>23,072</u>
Packaging products:		
— Hong Kong and the PRC	188,050	148,853
— Europe	81,280	80,725
— North and South America	30,674	43,841
— Others	<u>18,652</u>	<u>21,255</u>
	318,656	294,674
Treasury investment:		
— Hong Kong	<u>(79,748)</u>	<u>(355,369)</u>
Segment revenue	<u>317,699</u>	<u>(37,623)</u>

The geographical locations of the Group's non-current assets, except for available-for-sale investments are analysed as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Hong Kong	295,539	404,671
Mainland China	<u>142,986</u>	<u>30,557</u>
	<u>438,525</u>	<u>435,228</u>

The non-current asset information above is based on the locations of the assets.

Information about major customers

Revenue derived from customers in the packaging products segment which individually accounted for more than 10% of the Group's total revenue is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A	<u>96,766</u>	<u>94,452</u>

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, value of service rendered, net fair value gains and losses on financial assets at fair value through profit or loss and interest income and dividend income on the Group's investment portfolio. The amounts of each significant category of revenue recognised in revenue during the year are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Manufacturing and sales of packaging products	318,656	294,673
Provision of QR code packaging products and solutions	73,545	12,818
Online advertising display services income	5,246	10,255
Interest income from convertible notes	–	1,668
Interest income from loans receivables	–	4,837
Dividend income from financial assets at fair value through profit or loss	500	–
	397,947	324,251
Fair value losses on financial assets at fair value through profit or loss, net*	(80,248)	(361,874)

* The gross proceeds from the disposal of listed equity investments classified as financial assets at fair value through profit or loss for the year were approximately HK\$39,378,000 (2016: HK\$356,927,000).

5. OTHER INCOME, GAINS AND LOSSES, NET

An analysis of the Group's other income, gains and losses, net is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Bank interest income	208	208
Dividend in specie from available-for-sale investment	53,217	–
Sales of scrap materials	100	320
Gain on disposal of subsidiaries	–	7,295
Loss on disposal of available-for-sale investments, net	–	(5,451)
Gain on dilution of interest in a joint venture	2,533	1,076
Fair value gain on derivation component of convertible bond	14,515	–
Foreign exchange differences, net	(4,465)	(727)
Impairment loss of goodwill	(104,664)	(263,558)
(Impairment loss of)/reversal of trade receivables, net	(66)	85
Impairment loss of available-for-sale investments	(72,168)	(453,834)
Other receivables written off	–	(1,798)
Loss on disposal of property, plant and equipment	(1,443)	–
Others	713	93
	(111,520)	(716,291)

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest on convertible bond	5,461	–
Interest on obligations under finance lease	76	–
Interest expense on other borrowings	156	4,653
Interest expense on promissory note	–	5,407
	<u>5,693</u>	<u>10,060</u>

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Continuing operations:		
Auditors' remuneration	1,200	1,000
Cost of inventories sold	279,925	236,457
Depreciation	8,950	2,526
Amortisation of intangible assets	435	132
Minimum lease payments under operating leases	12,901	9,795
Research and development cost	42,586	3,148
Less: Capitalised amount	<u>(13,398)</u>	<u>–</u>
	<u>29,188</u>	<u>3,148</u>
Employee benefits expenses (including directors' remuneration):		
Wages and salaries	114,489	95,258
Pension scheme contributions	<u>9,086</u>	<u>9,957</u>
	<u>123,575</u>	<u>105,215</u>
Equity-settled share option expense	<u>10,006</u>	<u>–</u>
Discontinued operations:		
Auditors' remuneration	–	39
Cost of inventories sold	–	387
Depreciation	–	699
Employee benefits expenses (including directors' remuneration):		
Wages and salaries	–	3,610
Pension scheme contributions	<u>–</u>	<u>66</u>
	<u>–</u>	<u>3,676</u>
Write-down of property, plant and equipment	–	3,010
Write-down of inventories to net realisable value	<u>–</u>	<u>20,830</u>

8. INCOME TAX

Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Continuing operations:		
Current tax — Hong Kong Profits Tax		
Provision for the year	3,886	–
Current tax — PRC Corporate Income Tax		
Provision for the year	369	–
Under-provision in respect of previous year	90	–
	<u>4,345</u>	<u>–</u>
Deferred tax	(116)	26
	<u>4,229</u>	<u>26</u>

Hong Kong Profits Tax is calculated at 16.5% (2016:16.5%). In accordance with the PRC Corporate Income Tax Law, the PRC Corporate Income Tax is calculated at a statutory rate of 25% (2016:25%) of the assessable profits except for 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co., Ltd.*) and 信碼互通(北京)有限公司 (Sigmatrix Technology Co., Ltd*), two indirect wholly-owned subsidiaries of the Group. Both companies obtained the High-new Technology Certificate for the years from 2017 to 2020 and were entitled to a tax rate of 15%.

In 2016, no provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong. The Group's subsidiaries established in the PRC either did not generate any assessable profit arising in the PRC or have tax losses brought forward from prior years to offset against their assessable profits generated during the year.

9. DISCONTINUED OPERATIONS

Bay Wisdom Limited (“Bay Wisdom”), a wholly owned subsidiary of the Group acquired four subsidiaries (collectively referred to as “Bay Wisdom Group”) which are principally engaged in the trading of apparel products on 7 March 2016. The Group disposed of its entire equity interest in Bay Wisdom Group on 21 November 2016.

The apparel products business was classified as discontinued operations and the related results for the period from 7 March 2016, date of acquisition, to 21 November 2016, date of disposal, were as follows:

	2016 <i>HK\$'000</i>
Revenue	880
Cost of sales	<u>(21,217)</u>
Gross loss	(20,337)
Other income, gains and losses	(3,007)
Selling and distribution expenses	(4,719)
Administrative expenses	<u>(26,610)</u>
Loss before tax	(54,673)
Income tax expense	<u>–</u>
Loss after tax	(54,673)
Loss on disposal of subsidiaries	<u>(1,286)</u>
Loss for the year from discontinued operations	<u>(55,959)</u>

The net cash flows of discontinued operations for the period from 7 March 2016 to 21 November 2016 were as follows:

	2016 <i>HK\$'000</i>
Net cash used in operating activities	(33,786)
Net cash generated from financing activities	<u>33,439</u>
Net cash outflows from discontinued operations	<u><u>(347)</u></u>

10. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2016: Nil).

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(i) From continuing and discontinued operations

The calculations of basic and diluted loss per share attributable to ordinary equity shareholders of the Company for the years ended 31 December 2017 and 2016 are based on the following data:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss for the year attributable to equity shareholders of the Company	<u>(245,226)</u>	<u>(1,150,825)</u>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>9,797,311</u>	<u>6,503,700</u>

(ii) From continuing operations

The calculations of basic and diluted loss per share attributable to ordinary equity shareholders of the Company for the years ended 31 December 2017 and 2016 are based on the following data:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss for the year attributable to equity shareholders of the Company	<u>(245,226)</u>	<u>(1,094,866)</u>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>9,797,311</u>	<u>6,503,700</u>

The weighted average number of ordinary shares for the purposes of calculating basis loss per share for the year ended 31 December 2016 has been adjusted to reflect the placing of shares during the year ended 31 December 2016. Details of issue of shares are set out in note 21.

Diluted loss per share for the year ended 31 December 2016 were the same as the basic loss per share as there were no potential ordinary shares outstanding for the year ended 31 December 2016.

The computation of diluted loss per share for the year ended 31 December 2017 does not assume the conversion of the Company's outstanding convertible bonds since their assumed exercise would result in a decrease in loss per share from continuing operations.

12. GOODWILL

	<i>HK\$'000</i>
At 1 January 2016, net of accumulated impairment losses	–
Acquisition of subsidiaries	533,947
Disposal of a subsidiary	(3,875)
Impairment loss for goodwill of Apex Group's CGU	<u>(263,558)</u>
At 31 December 2016, net of accumulated impairment losses	266,514
Acquisition of 信碼互通(北京)科技有限公司 (Sigmatrix Technology Co., Ltd*) ("Sigmatrix")	39,875
Impairment loss	<u>(104,664)</u>
At 31 December 2017, net of accumulated impairment losses	<u>201,725</u>

The goodwill has been allocated to two cash-generating units ("CGUs"): (1) a group of subsidiaries engaged in the provision of QR codes on product packaging and solutions and online advertising display services acquired in August 2016 (the "Apex Group"); and (2) Sigmatrix engaged in the provision of QR code on product packaging acquired in March 2017.

CGU of Apex Group

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The CGU's cash flow beyond the five-year period is extrapolated using a 3% growth rate (2016: 3%). The growth rate used does not exceed the long-term average growth rates for the businesses in which the CGU operate. The pre-tax discount rate used of 18.66% (2016: 22.16%) for QR code business reflects specific risks relating to the relevant unit. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. In the opinion of the Company's directors, a decrease in the revenue growth rate by 1% per annum and gross margin by 1% per annum would cause the carrying amount of the CGU to exceed its recoverable amount further by approximately HK\$18,641,000 and HK\$9,824,000 respectively.

The recoverable amount of the CGU of HK\$161,850,000 (2016: HK\$266,514,000) which was calculated based on value in use method, that is lower than the carrying value of the CGU and accordingly impairment loss of HK\$104,664,000 (2016: HK\$263,558,000) was recognised in profit or loss for the year ended 31 December 2017.

CGU of Sigmatrix

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The CGU's cash flow beyond the five-year period is extrapolated using a 3% growth rate. The growth rate used does not exceed the long-term average growth rates for the businesses in which the CGU operate. The pre-tax discount rate used of 17.12% for QR code business reflects specific risks relating to the relevant unit. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

The recoverable amount of the CGU was calculated based on value in use that is higher than the carrying value of the CGU and accordingly no impairment loss was recognised in profit or loss for the year ended 31 December 2017. In the opinion of the Company's directors, a decrease in the revenue growth rate by 1% per annum and gross margin by 1% per annum would cause the carrying amount of the CGU to exceed its recoverable amount by approximately HK\$7,563,000 and HK\$3,333,000 respectively.

13. AVAILABLE-FOR-SALE INVESTMENTS

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Unlisted equity investments, at cost			
Company A	<i>(a)</i>	67,397	67,397
Company B	<i>(b)</i>	11,329	46,163
Win Wind Capital Limited ("Win Wind")	<i>(c)</i>	279,297	316,631
Company C	<i>(d)</i>	53,217	–
		<u>411,240</u>	<u>430,191</u>

The unlisted equity investments relate to investments in four (2016: three) private entities, which were intended to hold for long-term strategic purpose at the time of acquisition. Company A, Company B, Win Wind and Company C are engaged in the provision of advisory and financial services, property holding, investments in securities and money lending.

These available-for-sale investments are subsequently measured at cost less impairment at the end of reporting period because the range of the reasonable fair value estimates are so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes:

- (a) As at 31 December 2017, the Group had shareholding of 2.69% (2016: 3.95%) and the carrying amount of the investment is approximately HK\$67,397,000 (2016: HK\$67,397,000).

During the year ended 31 December 2016, Company A and its subsidiaries incurred losses due to the drop in values of their investments. The management of the Company reviewed Company A and its subsidiaries' latest financial position and net asset value per share, and concluded that there was objective evidence of impairment as at 31 December 2016. The Group recognised an impairment loss of approximately HK\$22,603,000 in the consolidated statement of profit or loss for the year ended 31 December 2016 with reference to the latest financial information. In the opinion of the directors of the Company, no impairment is considered necessary as at 31 December 2017.

- (b) As at 31 December 2017, the Group owned approximately 2.95% (2016: 2.54%) of the issued share capital of Company B. The management of the Company performed impairment assessment of investment in Company B as at 31 December 2017 by reference to the carrying amount of net assets of Company B. Due to significant reduction in net assets of Company B which are mainly available-for-sale investments, an impairment loss of approximately HK\$34,834,000 was recognised for the year ended 31 December 2017. For the year ended 31 December 2016, the management of the Company assessed the recent market transactions to determine whether there was any impairment indicator and concluded that the fair value of the investment is significantly lower than the carrying amount of investment and concluded to recognise an impairment loss of HK\$33,862,000.

- (c) As at 31 December 2017, the Group owned approximately 11.78% (2016: 11.78%) of the issued share capital in Win Wind. On 25 January 2018, the Group entered into a conditional agreement to dispose of 11.78% interest of Win Wind (the “Disposal”) at a consideration of HK\$320,000,000 which is satisfied by the promissory note issued by the purchaser. Details of these are set out in the Company’s announcement dated 25 January, 2018. The Disposal was not yet completed as at the date of this announcement. The promissory note bears zero interest rate and repayable in June 2019, and considering the net present value of the promissory note of HK\$279,297,000 calculated by using a discount rate of 10%, and concluded that the fair value of the investments is lower than the carrying amount of investment and an impairment loss of HK\$37,334,000 was recognised for the year ended 31 December 2017 (2016: HK\$397,369,000).
- (d) During the year ended 31 December 2017, following the distribution in specie by an investee of Company B of the shares of Company C (the “Distribution Share”), Company B has declared distribution in specie of the Distribution Share to its shareholder on a pro-rata basis. One of the shareholders of Company B decided not to participate in the distribution and its entitlement has been taken up by the other shareholders. As a result, the Company is entitled to holds 9,108,328 shares or 0.75% of the total issued share capital of Company C.

As a result, the Group recognised an investment in Company C at HK\$53,217,000 which was determined based on the market transaction of the shares of Company C.

14. TRADE AND BILLS RECEIVABLES

	2017 <i>HK\$’000</i>	2016 <i>HK\$’000</i>
Trade and bills receivables	75,251	64,872
Impairment	–	(78)
	<u>75,251</u>	<u>64,794</u>

The Group’s trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period generally ranges from 30 to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group’s trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 <i>HK\$’000</i>	2016 <i>HK\$’000</i>
Within 1 month	34,125	34,952
1 to 2 months	25,755	13,001
2 to 3 months	4,624	3,536
Over 3 months	10,747	13,305
	<u>75,251</u>	<u>64,794</u>

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Listed equity investments, at market value	<u>14,250</u>	<u>97,500</u>
	<u><u>14,250</u></u>	<u><u>97,500</u></u>

The above financial assets were classified as held for trading and were measured at fair value through profit or loss.

As at 31 December 2016, the Group's listed equity investments with an aggregate carrying value of HK\$97,500,000 were pledged to secure margin facilities granted by a licensed securities company in Hong Kong to the Group.

16. RESTRICTED DEPOSITS

Pursuant to the terms of convertible bond issued by the Company in November 2017 with more details set out in note 19, the Company is required to maintain at the designated bank account at all times until the maturity date of the convertible bond an amount of not less than US\$1.4 million (equivalent to HK\$10,920,000), which represented the six-month interest on the convertible bond required to be paid by the Company pursuant to the terms of the convertible bond. Therefore, the amount of HK\$10,920,000 were classified as restricted deposit.

17. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 21 December 2017, Qualipak Manufacturing Limited, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with an independent third party to dispose of the Group's entire equity interest in Qualipak Production Inc. ("QPI"), a company incorporated in the British Virgin Islands, which is principally engaged in the holding of a property located in the PRC at a consideration of HK\$3,000,000. The transaction was completed on 2 January 2018. The asset of QPI as at 31 December 2017 was classified as non-current assets held for sale and as follows:

	2017 <i>HK\$'000</i>
Asset	
Land and building	<u>2,116</u>
Non-current assets classified as held for sale	<u><u>2,116</u></u>

18. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 1 month	29,078	14,375
1 to 2 months	13,054	6,748
2 to 3 months	3,030	1,706
Over 3 months	<u>2,633</u>	<u>2,737</u>
	<u><u>47,795</u></u>	<u><u>25,566</u></u>

The trade and bills payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

19. CONVERTIBLE BOND

On 3 October 2017, the Company and China Huarong International Holdings Limited (the “Subscriber”) entered into an agreement (the “CB Agreement”), pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the convertible bond (the “CB”) in the aggregate principal amount of US\$40,000,000 (equivalent to HK\$312,000,000). The net proceeds from the issue of the CB of approximately US\$39,671,000 (equivalent to HK\$309,439,000) will be used for development of the business operations of 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co. Ltd.*) (“SHTY”), a subsidiary of the Company, in particular, Touyun Retailers Management System, and for other general corporate purposes. The CB Agreement was completed on 10 November 2017 (the “Issue Date”).

The CB is secured by the share capital or registered capital of certain subsidiaries of the Group and personal guarantee provided by Mr. Wang Liang, a director of the Company. The CB bears interest from and including the Issue Date at the rate of 7.0% per annum, payable semi-annually. The CB will mature on the date falling on the second anniversary of the Issue Date subject to an automatic extension to the third anniversary of the Issue Date if the following conditions are satisfied (the “Maturity Date”):

- (i) the revenue for the six months ending 30 June 2019 as shown in the unaudited consolidated accounts of SHTY shall be not less than RMB500 million; and
- (ii) the total debt of SHTY as at 30 June 2019 as shown in its unaudited consolidated accounts for the year ended 30 June 2019 shall not be more than 40% of its total assets.

The initial conversion price is HK\$0.492 per share, subject to anti-dilutive adjustments. The CB holder has the right to convert the principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period beginning on, and including, the date falling on the 180th day from the Issue Date and ending on, the Maturity Date.

Unless previously redeemed, converted or purchased and cancelled, the Company shall, redeem all the outstanding CB on the Maturity Date at an amount equal to the Redemption Amount*. The Company may give notice to redeem in whole, or in part, such CB for the time being outstanding at the Redemption Amount after the 180th calendar day after the Issue Date. Unless previously redeemed, converted or purchased and cancelled, the CB Holders may give notice to redeem in whole, or in part, such CB for the time being outstanding at the Redemption Amount upon occurrence of two consecutive breaches of certain financial covenants as set forth in the CB Agreement.

- * Redemption Amount is defined as an amount equal to the aggregate of (a) the aggregate principal amount of such outstanding CB held by the relevant CB Holder, (b) any accrued but unpaid interest on such outstanding CB on the relevant redemption date; (c) if the sum of the amounts referred in paragraphs (a) and (b) above plus interest already paid on such outstanding CB falls short of making up a return equal to an internal rate of return of 10.0% on the aggregate principal amount of the outstanding CB calculated from the Issue Date until the redemption date, such additional amount which would make up an internal rate of return of 10.0% on the aggregate principal amount of the outstanding CB; and (d) (in respect of any redemption made as a result of any events of default) any default interest accrued but unpaid.

The net proceeds of the CB was HK\$309,439,000, after net off of issuance cost of HK\$2,561,000.

The convertible bond contain two components, debt component and derivatives (including conversion and early redemption options) component. Since the Redemption Amount, the principal payable on the Maturity Date are denominated and settled in USD which is not same as the Company’s functional currency which is HK\$, the conversion option will not result in an exchange of a fixed amount of cash (in the context of the functional currency of the Company) for a fixed number of shares and hence the conversion option does not meet the definition of an equity instrument in accordance with the applicable accounting standards. The effective interest rate of the debt component is 13.08%. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

* For identification purpose only

The movement of the components of the convertible bond for the year ended 31 December 2017 is set out below:

	Debt component HK\$'000	Derivative component HK\$'000	Total HK\$'000
Issuance of the convertible bond	295,658	16,342	312,000
Issue cost	(2,561)	–	(2,561)
Interest charge (<i>note 6</i>)	5,461	–	5,461
Change in fair value	–	(14,515)	(14,515)
	<u>298,558</u>	<u>1,827</u>	<u>300,385</u>
Carrying amount at the end of the year	<u>298,558</u>	<u>1,827</u>	<u>300,385</u>
Classified as:			
Current liability	–	1,827	
Non-current liability	298,558	–	
	<u>298,558</u>	<u>1,827</u>	

20. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2017, the Group has obligations under finance lease (2016: Nil) as follows:

	2017 Present value of the minimum lease payment HK\$'000	Total minimum lease payment HK\$'000
Within one year	1,536	1,649
More than one year but not exceeding two years	805	825
	<u>2,341</u>	2,474
Less: future finance charge		<u>(133)</u>
Present value of lease obligations		<u>2,341</u>

21. SHARE CAPITAL

	2017 HK\$'000	2016 HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
9,797,311,301 ordinary shares of HK\$0.01 each	<u>97,973</u>	<u>97,973</u>

A summary of movements in the Company's share capital is as follows:

	<i>Notes</i>	Number of shares in issue	Share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2016		4,528,628,779	45,286	243,779	289,065
Issue of shares	<i>(a)</i>	575,063,972	5,751	101,174	106,925
Issue of shares	<i>(b)</i>	2,040,000,000	20,400	693,600	714,000
Placing of new shares	<i>(c)</i>	420,738,550	4,207	113,600	117,807
Issue of shares	<i>(d)</i>	600,000,000	6,000	231,000	237,000
Placing of new shares	<i>(e)</i>	1,632,880,000	16,329	391,891	408,220
		<u>9,797,311,301</u>	<u>97,973</u>	<u>1,775,044</u>	<u>1,873,017</u>
Share issue expenses		–	–	(5,616)	(5,616)
At 31 December 2016, 1 January 2017 and 31 December 2017		<u>9,797,311,301</u>	<u>97,973</u>	<u>1,769,428</u>	<u>1,867,401</u>

Notes:

The were no movement in the Company's share capital during the year ended 31 December 2017.

For the year ended 31 December 2016

- (a) On 25 June 2015, the Group issued 287,531,980 and 287,531,992 unlisted warrants, with a mandatory exercise right and at the subscription prices of HK\$0.56 and HK\$0.608, respectively, per warrant, at a placing price of HK\$0.01 per warrant (the "Share Warrants"), to 16 independent placees pursuant to certain conditional placing agreements and supplemental agreement dated 21 April 2015, 29 April 2015, 13 May 2015, 15 May 2015 and 8 June 2015.

Pursuant to an agreement dated 2 December 2015 (the "Subscription and Cancellation Agreement") entered into between the Group and the holders of the Share Warrants, the Group agreed to cancel all the outstanding Share Warrants (the "Cancellation") and the holders of the Share Warrants agreed to subscribe for a total of 575,063,972 new shares of the Group at HK\$0.16 per share (the "Subscription"). The aggregate subscription price is approximately HK\$92,010,000. The Subscription was completed on 4 February 2016. The share capital of the Company was increased by approximately HK\$5,751,000 and the share premium of approximately HK\$86,259,000 was credited to the share premium account. The other equity instrument reserve of approximately HK\$14,915,000 was transferred to the share premium account upon Subscription.

- (b) On 19 July 2016, the Company allotted and issued 2,040,000,000 shares to Win Wind Capital Limited to subscribe for 11.78% of its enlarged shares. The share price of the Company was HK\$0.35 per share at the date of completion of acquisition. The share capital of the Company was increased by approximately HK\$20,400,000 and the share premium of approximately HK\$693,600,000 was credited to the share premium account.
- (c) On 19 August 2016, the Company allotted and issued 420,738,550 ordinary shares to certain independent third parties at a subscription price of HK\$0.28 per share and raised a total of approximately HK\$117,807,000, before expenses, which was used to satisfy the cash considerations for the acquisition of the Apex Capital Business Limited and its subsidiaries (the "Apex Group") and the related shareholder's loan, the remainder of which will be used towards working capital purpose of the Group. The share capital of the Company was increased by approximately HK\$4,207,000 and the share premium of approximately HK\$113,600,000 was credited to the share premium account.

- (d) On 19 August 2016, the Company allotted and issued 600,000,000 shares to TY Technology Group Limited as part of the consideration for acquisition of the Apex Group. The transaction was completed on 19 August 2016. The market price of the Company's shares at the acquisition date was HK\$0.395 per share. The share capital of the Company was increased by approximately HK\$6,000,000 and the share premium of approximately HK\$231,000,000 was credited to the share premium account.
- (e) On 28 November 2016, the Company allotted and issued 1,632,880,000 shares to certain independent third parties at a subscription price of HK\$0.25 per share and raised a total of approximately HK\$408,220,000, before expenses which was used to redeem the promissory note and to expand and develop the Company's newly acquired QR codes packaging business. The share capital of the Company was increased by approximately HK\$16,329,000 and the share premium of approximately HK\$391,891,000 was credited to the share premium account.

22. ACQUISITION OF A SUBSIDIARY

On 27 March 2017, the Group acquired entire interest of 信碼互通(北京)科技有限公司(Sigmatrix Technology Co., Ltd*) ("Sigmatrix") at a cash consideration of RMB55,000,000 (equivalent to approximately HK\$62,210,500) from an independent third party. Sigmatrix is principally engaged in the technological development, marketing, research and development of the QR codes packaging business in the PRC.

The carrying amount of the identifiable assets and liabilities of Sigmatrix recognised at the date of acquisition were as follows:

	Total amount recognised on acquisition HK\$'000
Property, plant and equipment	12,025
Cash and cash equivalents	6,098
Inventories	5,637
Trade and bill receivables	5,797
Prepayments, deposits and other receivables	1,409
Trade payables	(2,384)
Other payables and accruals	(6,247)
	<hr/>
Total identifiable net assets recognised	22,335
Goodwill on acquisition	39,875
	<hr/>
	62,210
Satisfied by:	
Cash	62,210
	<hr/> <hr/>

The Group incurred transaction costs of HK\$138,000 for the acquisitions. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

Goodwill arising on acquisition

Goodwill arose from the acquisition of the Sigmatrix because the cost of the business combination effectively included amounts in relation to the benefit of strengthening packaging business by upgrading the information technology capabilities of its packaging business, future revenue growth and future market development of the Sigmatrix. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria of identifiable assets.

None of goodwill arising on this acquisition is expected to be deductible for tax purpose.

Included in the loss for the year is loss of HK\$8,439,000 generated by Sigmatrix. The revenue included in the consolidated statement of profit or loss and other comprehensive income since 27 March 2017 contributed by Sigmatrix was HK\$18,321,000.

If the acquisition of Sigmatrix had occurred on 1 January 2017, the Group's revenue (excluding fair value losses on financial assets at fair value through profit or loss) and loss for the year would have been HK\$401,719,000 and HK\$257,321,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had an acquisition been completed 27 March 2017, nor is it intended to be a projection of future results.

As analysis of the cash flows in respect of the acquisition of Sigmatrix are as follows:

	Total HK\$'000
Cash consideration	(62,210)
Cash and cash equivalents acquired	6,098
	<hr/>
Net outflow of cash and cash equivalents	(56,112)
	<hr/> <hr/>

23. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include (i) any director, officer, employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or its Related Group or a company in which the Group holds an interest or a subsidiary of such company (collectively the "Eligible Group"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include the Eligible Group; or (iii) a company beneficially owned by the Eligible Group. The Scheme became effective on 18 May 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

"Related Group" means (i) each of the substantial shareholders of the Company, and (ii) each associate and substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the Company or of a substantial shareholder referred to in (i) above, and (iii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (ii) above, and (iv) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iii) above, and (v) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iv) above.

Pursuant to the Scheme, 119,700,000 options and 97,750,000 options were granted to eligible participants of the Group on 25 January 2017 and 12 December 2017 respectively. The options holders should be remained as eligible participants throughout the vesting period. Movements of the options, which were granted under the Scheme, during the year were listed below:

Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1 January 2017	Granted during the year	Lapsed/cancelled during the year	Number of options outstanding at 31 December 2017
25/01/2017	0.335	02/07/2018 to 01/07/2022	–	29,925,000	(1,900,000)	28,025,000
25/01/2017	0.335	02/07/2019 to 01/07/2022	–	29,925,000	(1,900,000)	28,025,000
25/01/2017	0.335	02/07/2020 to 01/07/2022	–	29,925,000	(1,900,000)	28,025,000
25/01/2017	0.335	02/07/2021 to 01/07/2022	–	29,925,000	(1,900,000)	28,025,000
			–	119,700,000	(7,600,000)	112,100,000
			–	119,700,000	(7,600,000)	112,100,000

The above options will be vested on 2 July 2018.

Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1 January 2017	Granted during the year	Lapsed/cancelled during the year	Number of options outstanding at 31 December 2017
12/12/2017	0.335	10/06/2019 to 09/06/2023	–	24,437,500	(25,000)	24,412,500
12/12/2017	0.335	10/06/2020 to 09/06/2023	–	24,437,500	(25,000)	24,412,500
12/12/2017	0.335	10/06/2021 to 09/06/2023	–	24,437,500	(25,000)	24,412,500
12/12/2017	0.335	10/06/2022 to 09/06/2023	–	24,437,500	(25,000)	24,412,500
			–	97,750,000	(100,000)	97,650,000
			–	97,750,000	(100,000)	97,650,000

The above options will be vested on 10 June 2019.

The fair value of the share options granted on 25 January 2017 and 12 December 2017 are determined using the Binomial Option Pricing Model (the “Model”), was HK\$17,892,000 and HK\$17,950,000 respectively. The inputs into the Model and the estimated fair value of the share options at respective grant date are as follows:

	25 January 2017	12 December 2017
Closing price of the shares	HK\$0.285	HK\$0.305
Exercise price	HK\$0.335	HK\$0.335
Dividend yield	Nil	Nil
Expected volatility	93.19%	87.92%
Risk-free interest rate	1.289%	1.582%
Fair value per share option	HK\$0.143 to HK\$0.153	HK\$0.179 to HK\$0.186

Expected volatility was estimated based on the historical volatilities of the Company’s share price while dividend yield was estimated by the historical dividend payment record of the Company.

During the year ended 31 December 2017, the Group recognised an expense of HK\$10,006,000 as equity-settled share based payments in the consolidated statement of profit or loss with reference to their respective vesting period.

24. EVENTS AFTER REPORTING PERIOD

On 25 January 2018, the Company entered into a conditional agreement with Enerchina Holdings Limited (the “Purchaser”, a company incorporated in Bermuda with limited liability whose shares are listed on the main board of the Stock Exchange) pursuant to which the Company agreed to sell and the Purchaser has agreed to acquire the 11.78% of the entire issued share capital of Win Wind Capital Limited at a consideration of HK\$320,000,000 which will be settled by the issuance of the zero coupon promissory note of the Purchaser. The transaction has not yet been completed as at the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group recorded revenue of approximately HK\$397.9 million (2016: approximately HK\$324.3 million), representing an increase of approximately 22.7% as compared to the last year. The increase in turnover was primarily due to the QR codes business that the Group acquired in August 2016.

The loss attributable to shareholders of the Company for the year ended 31 December 2017 was HK\$245.2 million as compared to the loss of HK\$1,150.8 million for the financial year 2016. The reduced loss was significantly due to the decrease in fair value loss on financial assets at fair value through profit or loss; impairment loss on available-for-sale investments and impairment loss on goodwill.

The Group diversified its business portfolio by acquiring QR code business in August 2016. Revenue from QR code business was HK\$78.8 million and its segment loss was HK\$157.7 million during the year ended 31 December 2017 (2016: from acquisition date to 31 December 2016: revenue of HK\$23.1 million and segment loss of HK\$268.5 million). The segment loss for the year ended 31 December 2017 was also decreased by 41.3% when compared with last year, it was primarily attributable to the decrease in impairment loss on goodwill.

The packaging products business reported a revenue of HK\$318.7 million for the year ended 31 December 2017 (2016: HK\$294.7 million), representing an increase of 8.1% as compared with last year. A segment profit of HK\$25.9 million was recorded during the year ended 31 December 2017 (2016: HK\$16.5 million), representing an increase of 56.9% as compared with last year.

During the year, the Group recorded fair value loss of HK\$80.2 million on financial assets at fair value through profit or loss, representing a decrease of 77.8% as compared to the last year amounted to HK\$361.9 million. Such decrease were mainly attributable to significant amount of investments was disposed of during 2016. An impairment loss of HK\$72.2 million on available-for-sale investments was recognized during the year ended 31 December 2017 (2016: HK\$453.8 million), representing a decrease of 84.1% when compared with last year, it is largely due to the asset value of the Group's available-for-sale investments maintained stable during the year 2017.

PROSPECTS

In 2017, the Group has strategically changed its focus on the business of QR codes on product packaging and solutions with research and development intensity and also the Touyun Retailers Management System. The Group is optimistic that this technology will create a significant platform expansion to widen revenue stream and generate earnings growth. The Group will further explore opportunities to amalgamate the business so as to provide a wide range of integrated services to meet the increasing needs of the customers.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL STRUCTURE

The Group's financial position was prudently monitored and precisely managed throughout the year. As at 31 December 2017, the Group had outstanding HK\$298.6 million secured convertible bond, bears interests of 7% per annum and repayable in 2019. As at 31 December 2017, the Group had nil short term borrowings (2016: HK\$12.0 million with an effective interest rate of 8% per annum) and had cash balances amounting to HK\$348.7 million (2016: HK\$206.1 million). The gearing ratio (net borrowings to shareholders' equity) was zero (2016: zero).

CONVERTIBLE BOND

On 3 October 2017, the Company and China Huarong International Holdings Limited (the "Subscriber") entered into an agreement (the "CB Agreement"), pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the convertible bond (the "CB") in the aggregate principal amount of US\$40,000,000. The net proceeds from the issue of the CB of approximately US\$39,671,000 (equivalent to HK\$309,439,000) will be used for development of the business operations of 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co. Ltd.*) ("SHTY", a subsidiary of the Company), in particular, Touyun Retailers Management System, and for other general corporate purposes. The CB Agreement was completed on 10 November 2017 (the "Issue Date").

The CB is secured by the share capital or registered capital of certain subsidiaries of the Group and personal guarantee provided by Mr. Wang Liang, a director of the Company. The CB will bear interest from and including the Issue Date at the rate of 7.0% per annum, payable semi-annually. The CB will mature on the date falling on the second anniversary of the Issue Date subject to an automatic extension to the third anniversary of the Issue Date if certain financial covenants are satisfied (the "Maturity Date"):

The initial conversion price is HK\$0.492 per share, subject to anti-dilutive adjustment. The CB holder has the right to convert the principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period beginning on, and including, the date falling on the 180th day from the Issue Date and ending on, the Maturity Date.

Details of the CB were set out in note 19 to the results announcement.

CAPITAL COMMITMENTS

The Group has the following capital commitments at the end of the reporting period:

	31 December 2017 HK\$'000	31 December 2016 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	<u>13,871</u>	<u>1,697</u>

PLEDGE OF ASSETS

As at 31 December 2017, the Group's equity interest in Apex Capital Business Limited and its subsidiaries were pledged to secure the HK\$298.6 million convertible bond. As at 31 December 2016, the Group's margin loan of HK\$12.0 million was secured by the Group's listed equity investment with carrying value of approximately HK\$97.5 million.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any contingent liabilities (2016: Nil).

FINANCE LEASE OBLIGATIONS

As at 31 December 2017, the Group has outstanding obligations under finance lease of HK\$2.3 million (2016: Nil).

ACQUISITION OF A SUBSIDIARY

On 27 March 2017, the Group acquired entire interest in 信碼互通(北京)科技有限公司 (Sigmatrix Technology Co., Ltd*) ("Sigmatrix") at a cash consideration of RMB55,000,000 (equivalent to approximately HK\$62,210,500).

Sigmatrix is principally engaged in the technological development, marketing, research and development of the QR codes packaging business in the PRC.

EMPLOYEES

As at 31 December 2017, the Group employed approximately 972 employees (2016: 1,041) in Hong Kong and Mainland China. The Group's remuneration policy is commensurate with merit, qualification and competence of employees. In addition to salary and year-end bonus, the remuneration packages also comprised of share options scheme, provident fund contribution, medical and life insurance.

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The address of the principal place of business of the Company in Hong Kong has been changed to 12/F, Kwan Chart Tower, 6 Tonnochy Road, Wan Chai, Hong Kong with effect from 2 June 2017.

FOREIGN EXCHANGE RISK

The Group's revenues were mainly denominated in US dollars and Hong Kong dollars with little use of Renminbi while expenses were mainly conducted in Hong Kong dollars and Renminbi. In view of the prevailing financial market situation, the Group did not engage in any foreign exchange hedging products for the exposure of currency risk of Renminbi during the period. However, the Group will still closely monitor fluctuations in exchange rates and actively manage the currency risk involved.

UPDATE ON USE OF PROCEED IN RELATION TO FUND RAISING ACTIVITIES

The Company would like to provide the update in respect of the use of the net proceeds in relation to the past fund raising activities during the financial year 2017 as at 31 December 2017:

Reference is made to the announcements of the China Touyun Tech Group Limited (the “Company”) dated 10 August 2016, 9 November 2016, 18 November 2016, 24 January 2017, 21 February 2017 and 3 October 2017, in relation to placing of shares and issue of convertible bond (collectively refer as to “Announcements”). Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Announcements.

Intended use of proceeds	Actual use of proceeds
(1) The Company raised HK\$406.1 million net proceeds from the placing of shares in November 2016 and the net proceeds were intended to use as follow:	
(a) An amount of HK\$263.4 million was used for the redemption of the Promissory Note	An amount of HK\$263.4 million was utilised for the full redemption of the Promissory Note in the principal amount of HK\$258 million and payment of accrued interest.
(b) An amount of HK\$142.7 million is for the expansion and development of its QR codes packaging business as to:	
(i) an amount of RMB55 million (equivalent to approximately HK\$63 million) towards an acquisition (the “Acquisition”) of 信碼互通 (北京) 科技有限公司 (Sigmatrix Technology Co., Ltd.*) in the People’s Republic of China (the “PRC”) by 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co., Ltd.*), an indirect wholly-owned subsidiary of the Company, under the relevant acquisition agreement dated 24 January 2017 which was completed in March 2017;	(i) The Acquisition was completed in March 2017. An amount of HK\$63 million were fully used towards the Acquisition.
(ii) approximately HK\$14.4 million for the acquisition of plant and equipment (the “Plant and Equipment Acquisition”);	(ii) An amount of HK\$14.4 million was fully used towards the Plant and Equipment Acquisition.

Intended use of proceeds

(iii) approximately HK\$58.7 million for research and development, recruitment of technical staff and other personnel and other working capital needs for QR codes packaging business (the “Research & Development”); and

(iv) approximately HK\$6.6 million for the purchase of transportation and office supplies to support the “Finding the origins of the edible goods program” in different provinces in the PRC (the “Purchase of Transportation and Supplies”).

(2) An amount of net proceeds of US\$39.6 million (equivalent to HK\$309.4 million) was raised from issue of US\$40 million 7% interest convertible bond in November 2017 and the net proceeds were intended to use as follows:

(a) An amount of HK\$278.5 million were used for expansion and development of QR codes business;

(b) An amount of HK\$30.9 million were used for general working capital of corporate office.

Actual use of proceeds

(iii) An amount of HK\$58.7 million were fully utilised in the Research & Development.

(iv) An amount of HK\$3.2 million were utilised in the Purchase of Transportation and Supplies and HK\$3.4 million has not yet been utilised.

An amount of HK\$18.1 million was utilised for the expansion and development of QR codes business and HK\$260.4 million has not been utilised.

An amount of HK\$4 million was utilised for general working capital of corporate office and HK\$26.9 million has not been utilised.

SIGNIFICANT INVESTMENT HELD

As at 31 December 2017, the Group held listed and unlisted investments of approximately HK\$14.3 million and HK\$552.8 million respectively, details of which were set out as follows:

Nature of investments	Number of shares held as at 31 December 2017	Percentage of shareholding as at 31 December 2017	Impairment loss for year ended 31 December 2017	Fair value/ carrying amount		Percentage to the Group's net assets as at 31 December 2017	Investment cost	
		%	HK\$'000	31 December 2017	31 December 2016	%	HK\$'000	
Available-for-sale investments								
<i>Unlisted Investments</i>								
Freewill Holdings Limited ("Freewill")	14,550,000	2.95	34,834	11,329	46,163	1.18	80,025	
Co-Lead Holdings Limited ("Co-Lead")	225	2.69	–	67,397	67,397	7.03	90,000	
Win Wind Capital Limited ("Win Wind")	13,600,000	11.78	37,334	279,297	316,631	29.15	714,000	
Satinu Resources Group Limited ("Satinu")	9,108,328	0.75	–	53,217	–	5.56	53,217	
			<u>72,168</u>	<u>411,240</u>	<u>430,191</u>	<u>42.92</u>	<u>937,242</u>	
			Share of profit of a joint venture for year ended	Carrying amount		Percentage to the Group's net assets	Investment cost	
	Number of shares held as at 31 December 2017	Percentage of shareholding as at 31 December 2017	31 December 2017	31 December 2017	31 December 2016	31 December 2017	HK\$'000	
		%	HK\$'000	HK\$'000	HK\$'000	%	HK\$'000	
Investment in a joint venture								
<i>Unlisted Investments</i>								
FreeOpt Holdings Limited ("FreeOpt")	1,500,000	31.38%	2,990	141,549	136,026	14.78	150,000	
			<u>2,990</u>	<u>141,549</u>	<u>136,026</u>	<u>14.78</u>	<u>150,000</u>	
			Unrealised loss on fair value change for year ended	Dividends received for year ended	Fair value/ carrying amount		Percentage to the Group's net assets	Investment cost
	Number of shares held as at 31 December 2017	Percentage of shareholding as at 31 December 2017	31 December 2017	31 December 2017	31 December 2017	31 December 2016	31 December 2017	HK\$'000
		%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	%	HK\$'000
Financial assets at fair value through profit or loss								
<i>Listed Investments</i>								
Enerchina Holdings Limited (622) ("Enerchina")	25,000,000	0.86	22,127	500	14,250	–	36,377	
			<u>22,127</u>	<u>500</u>	<u>14,250</u>	<u>–</u>	<u>36,377</u>	

Freewill is principally engaged in the businesses of property investment, investment advisory and financial services, investment in securities trading, and money lending.

Co-Lead is principally engaged in securities trading and investment holding businesses. Its investment portfolio consists of listed and unlisted securities.

Win Wind is principally engaged in the financial services and money lending activities.

Satinu is principally engaged in integrated financial services, securities brokerage services, money lending, securities and other direct investments.

FreeOpt is principally engaged in the provision of finance and money lending businesses.

Enerchina is principally engaged in the financial services sector, including the provision of securities brokerage services, placing and underwriting services, the provision of corporate finance advisory services, trading and investment of securities, provision of margin financing, money lending services, investment advisory and asset management services as well as investment holdings.

CHANGE OF DIRECTORS' AND CHIEF EXECUTIVE'S INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the directors and chief executives of the Company after 27 March 2017, the date of the Company's 2016 annual report to the date of this announcement are set out below:

- (a) On 18 April 2017, Ms. Yu Miu Cheung tendered her resignation as the company secretary of the Company.
- (b) From 18 April 2017, Ms. Cheng Pui Yee has been appointed as the company secretary of the Company.

CORPORATE GOVERNANCE

During the year, the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following deviations:

- (i) Code provision E.1.2 of the CG Code provides interpretation that the chairman of the board of directors should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. Mr. Wang Liang, the chairman of the Board, one non-executive Director and one independent non-executive Director at that

time did not attend the annual general meeting of the Company held on 27 May 2017 (the “2017 AGM”) as they had another business engagement. Other members of the Board including the chairman of the Audit Committee attended the 2017 AGM. The Company considers that the members of the Board who attended the 2017 AGM were able to sufficiently answering questions from shareholders at the 2017 AGM.

- (ii) Code provision A.2.7 which requires the chairman to hold meetings with the non-executive directors (including independent non-executive directors) (“NEDs”) without the executive directors present at least annually. However, the Company considers it is more effective for the Non-executive Directors to voice their views by individual communication with the Chairman of the Board.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors. In response to a specific enquiry by the Company, all directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year.

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2017 as set out in this announcement have been agreed by the Company’s auditors, Moore Stephens CPA Limited (“Moore Stephens”) to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by Moore Stephens in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Moore Stephens on this announcement.

REVIEW OF ANNUAL RESULTS

The Audit Committee has discussed with the management and independent auditors the accounting policies and practices adopted by the Group, and has reviewed the Group’s consolidated results for the year ended 31 December 2017.

PUBLICATION OF 2017 ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.chinatouyun.com.hk. The 2017 Annual Report will also be available on these two websites and despatched to the shareholders of the Company in due course.

By order of the Board
China Touyun Tech Group Limited
Wang Liang
Chairman

Hong Kong, 26 March 2018

As at the date of this announcement, the Board comprised the following directors:

Executive Directors

Mr. Wang Liang (*Chairman*)
Mr. Du Dong
Mr. Lo Yuen Wa Peter

Non-executive Director

Mr. Chen Hui

Independent Non-executive Directors

Mr. Cheung Wing Ping
Mr. Ha Kee Choy Eugene
Mr. To Shing Chuen