



CHINA TOUYUN TECH GROUP LIMITED 中國透雲科技集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1332

2018 Interim Report



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CORPORATE INFORMATION

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

AUDIT COMMITTEE

Mr. Ha Kee Choy Eugene (*Chairman*)
Mr. Cheung Wing Ping
Mr. To Shing Chuen

NOMINATION COMMITTEE

Mr. Wang Liang (*Chairman*)
Mr. Du Dong
Mr. Chen Hui
Mr. Cheung Wing Ping
Mr. Ha Kee Choy Eugene
Mr. To Shing Chuen

REMUNERATION COMMITTEE

Mr. To Shing Chuen (*Chairman*)
Mr. Wang Liang
Mr. Du Dong
Mr. Cheung Wing Ping
Mr. Ha Kee Choy Eugene

AUTHORISED REPRESENTATIVES

Mr. Du Dong
Mr. Lo Yuen Wa Peter

COMPANY SECRETARY

Ms. Cheng Pui Yee

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

12/F, Kwan Chart Tower
6 Tonnochy Road
Wanchai
Hong Kong

INDEPENDENT AUDITORS

Moore Stephens CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai
Banking Corporation Limited

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and transfer office

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong branch share registrar and transfer office

Tricor Secretaries Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.chinatouyun.com.hk

STOCK CODE

1332

On behalf of the Board of Directors (the “Directors” or the “Board”) of China Touyun Tech Group Limited (the “Company”), I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2018.

BUSINESS REVIEW

The Group recorded a loss attributable to the shareholders of the Company of HK\$82.8 million for the six months ended 30 June 2018, representing a decrease of 10.5% as compared to the loss attributable to the shareholders of the Company of HK\$92.5 million for the six months ended 30 June 2017. The improved performance was mainly due to the reduced loss on fair value losses on financial assets at fair value through profit or loss and partly set off by the increase in administrative and operating expenses and finance cost.

During the six months ended 30 June 2018, the Group recorded a revenue of approximately HK\$162.2 million (six months ended 30 June 2017: HK\$171.5 million), representing a decrease of approximately 5.4% as compared to the corresponding period of last year. The Group’s overall gross profit margin was 29.3% (six months ended 30 June 2017: 29.8%). Such slight decrease in gross profit margin is primarily attributable to the (i) increasing operating cost from QR code business; and (ii) relatively fixed production costs, increased material costs and decreased sale orders had all influenced negatively on profit margins of packaging products business.

The “Touyun Retailers Management System” was launched in 2017 and has currently operated in 12 cities of PRC covering 9,000 retailers and ministores including but not limited to consumer products, apparel products, tobacco and alcohol, electrical appliances and hardware, and the Company will closely monitor and review the market response and will adjust marketing strategies timely.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW AND PROSPECT

QR code business

Revenue from QR code business was HK\$37.2 million and its segment loss was HK\$52.6 million during the six months ended 30 June 2018 (six months ended 30 June 2017: Revenue of HK\$31.7 million and segment loss of HK\$21.7 million). The increase in segment loss was due to the increasing operating cost from the operation of Touyun Retailers Management System.

In 2017, 上海透雲物聯網科技有限公司 (“SHTY”), a wholly-owned subsidiary of the Company has successfully recently developed an O2O (online-to-offline) system, namely “Touyun Retailers Management System”. This system is based on “One Product, One Code” application with QR codes as the medium, which directly links consumers, retailers and manufacturers and provides its users with a series of functions including automatic checkouts, taking purchase orders, store locations searches and arranging for delivery services, etc. Application of this system will therefore enable more time-efficient and cost effective communication and connection among consumers, retailers and manufacturers.

This system has currently operated in 12 cities of PRC covering 9,000 retailers and ministores including but not limited to consumer products, apparel products, tobacco and alcohol, electrical appliances and hardware, and the Company will closely monitor and review the market response and will adjust marketing strategies timely.

Packaging products business

The packaging products business reported a revenue of HK\$124.8 million for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$139.8 million), representing a decrease of 10.8% as compared with the corresponding period of last year. A segment loss of HK\$0.7 million was recorded during the six months ended 30 June 2018 (six months ended 30 June 2017: segment profit of HK\$8.9 million). The segment loss was mainly due to decrease in sales.

Treasury investment business

During the period, the Group recorded fair value loss of HK\$2.9 million on financial assets at fair value through profit and loss, representing a decrease of 96.1% as compared to the corresponding period of last year amounted to HK\$72.9 million. Such decrease were mainly attributable to significant amount of investments was disposed of during the first half of 2017.

* For identification purpose only

LIQUIDITY AND FINANCE RESOURCES

As at 30 June 2018, the Group had outstanding HK\$307.0 million secured convertible bond, bears interest of 7% per annum and repayable in 2019 (31 December 2017: HK\$298.6 million). The Group had no other borrowings (31 December 2017: Nil) and had cash balances amounting to HK\$255.8 million (31 December 2017: HK\$348.7 million). Gearing ratio (net borrowings to shareholders' equity) as at 30 June 2018 was 5.7% (31 December 2017: Nil).

PLEDGE OF ASSETS

As at 30 June 2018, the Group's equity interest in Apex Capital Business Limited and its subsidiaries were pledged to secure the HK\$307.0 million convertible bond (31 December 2017: HK\$298.6 million).

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any contingent liabilities (31 December 2017: Nil).

CAPITAL COMMITMENTS

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

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	159	13,871

FINANCE LEASE OBLIGATIONS

As at 30 June 2018, the Group has outstanding obligations under finance lease of HK\$6.9 million (31 December 2017: HK\$2.3 million).

FOREIGN EXCHANGE RISK

Most of the Group's revenues are transacted in US dollars and Hong Kong dollars while expenses are mainly in US dollars, 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. The Group still monitors fluctuations in exchange rates closely and manages the currency risk involved actively.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 30 June 2018, the Group had a total workforce of approximately 1,000 employees in Hong Kong and Mainland China. The Group remunerates its staff based on their merit, qualification, competence and prevailing market salaries trend. In addition to salary and year-end bonus, the remuneration packages also comprised of share option scheme, provident fund contributions, medical and life insurances.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

APPRECIATION

On behalf of the Board, I would like to express our utmost gratitude to our customers, bankers, suppliers, strategic partners and most valued shareholders for their continued support. We also wish to thank the Group's management and staff for their professionalism, loyalty and contribution to the Group.

By order of the Board

Wang Liang

Chairman

Hong Kong, 28 August 2018

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 30 June 2018, details of the interests and short positions of each of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in shares of the Company

Name of director	Capacity in which interests are held	Number of shares held	Approximate percentage
Mr. Wang Liang (Note)	Beneficial owner	2,240,000,000	22.86

Note: Ms. Qiao Yanfeng ("Ms. Qiao", a substantial shareholder of the Company and Mr. Wang Liang's mother) is deemed to be interested in 600,000,000 shares through TY Technology Group Limited which is in turn owned as to 90% by Wise Tech Enterprises Incorporated (wholly-owned by Ms. Qiao) and 10% by Truthful Bright International Holding Limited (wholly-owned by Ms. Qiao). Mr. Wang Liang together with Ms. Qiao were interested in the aggregate of 2,840,000,000 shares, representing approximately 28.99% of the issued shares of the Company.

Save as disclosed above, as at 30 June 2018, the Company had not been notified of any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The Company adopted a share option scheme on 18 May 2012, details of which were disclosed in the Company's prospectus dated 28 June 2012 and are set out in note 19 to these unaudited interim condensed consolidated financial statements.

DISCLOSURE OF INTERESTS

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2018, details of the interests and short positions of every person, other than directors or the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholders	Capacity in which interests are held	Number of shares held (long position)	Approximate percentage
Mr. Wang Liang	Beneficial owner	2,240,000,000	22.86
Ms. Qiao Yanfeng (Note 1)	Interest in controlled corporations	600,000,000	6.12
Mr. Qin Fen	Beneficial owner	789,880,000	8.06
China Huarong International Holdings Limited	Beneficial owner	630,487,804 (Note 2)	6.05

Notes:

1. Ms. Qiao Yanfeng ("Ms. Qiao") is deemed to be interested in 600,000,000 shares through TY Technology Group Limited which is in turn owned as to 90% by Wise Tech Enterprises Incorporated (wholly-owned by Ms. Qiao) and 10% by Truthful Bright International Holding Limited (wholly-owned by Ms. Qiao).
2. The 630,487,804 shares represent the new shares to be issued as if the US\$40 million convertible bond is fully converted.

Save as disclosed above, as at 30 June 2018, the Company had not been notified of any interests or short positions of any person, other than directors or the chief executive of the Company, in the shares or underlying shares of the Company required to be recorded in the register kept by the Company under Section 336 of the SFO.

UPDATE ON USE OF PROCEEDS IN RELATION TO FUND RAISING ACTIVITIES

In addition to the information provided in the annual report for the year ended 31 December 2017 (the “Annual Report”), the Company would like to further provide the update in respect of the use of the net proceeds in relation to the past fund raising activities as at 30 June 2018:

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, 3 October 2017 and 10 November 2017 in relation to the 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 and the Annual Report.

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.

* For identification purposes only

OTHER INFORMATION

Intended use of proceeds	Actual use of proceeds
(b) An amount of HK\$142.7 million is for the expansion and development of its QR code 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 and 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.
(iii) approximately HK\$58.7 million for research and development, recruitment of technical staff and other personnel and other working capital needs for QR code business (the “Research & Development”); and	(iii) An amount of HK\$58.7 million was fully utilised in the Research & Development.

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Intended use of proceeds

Actual use of proceeds

- | | |
|--|---|
| <p>(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”).</p> | <p>(iv) An amount of HK\$3.2 million was utilised in the Purchase of Transportation and Supplies and HK\$3.4 million has not yet been utilised and expected to be utilised in 2018 and 2019.</p> |
| <p>(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:</p> | |
| <p>(a) An amount of HK\$278.5 million were used for expansion and development of QR code business; and</p> | <p>An amount of HK\$80.5 million was utilised for the expansion and development of QR code business and HK\$198.0 million has not been utilised. The unutilised amount is expected to be utilised in 2018 and 2019 and applied for the same purposes as disclosed in the Announcements and Annual Report.</p> |
| <p>(b) An amount of HK\$30.9 million were used for general working capital of corporate office.</p> | <p>An amount of HK\$24.1 million was utilised for general working capital of corporate office and HK\$6.8 million has not been utilised. The unutilised amount is expected to be utilised in 2018 and 2019 and applied for the same purposes as disclosed in the Announcements and Annual Report.</p> |

OTHER INFORMATION

SIGNIFICANT INVESTMENT HELD

As at 30 June 2018, the Group held listed and unlisted investments of approximately HK\$11.4 million and HK\$572.0 million respectively, details of which were set out as follows:

Nature of investments	Number of shares held	Percentage of shareholding	Fair value change for period ended	Fair value		Percentage to the Group's net assets	Investment cost
	as at 30 June 2018	as at 30 June 2018	30 June 2018	as at 30 June 2018	as at 31 December 2017	as at 30 June 2018	
		%	HK\$'000	HK\$'000	HK\$'000	%	HK\$'000
Financial assets at fair value through profit or loss							
<i>Unlisted Investments</i>							
Freewill Holdings Limited ("Freewill")	14,550,000	2.95	(5,564)	5,765	11,329	0.64	80,025
Co-Lead Holdings Limited ("Co-Lead")	225	2.17	103	67,500	67,397	7.51	90,000
Win Wind Capital Limited ("Win Wind")	13,600,000	11.78	-	279,297	279,297	31.08	714,000
Satinu Resources Group Limited ("Satinu")	9,108,328	0.90	19,650	72,867	53,217	8.11	53,217
			14,189	425,429	411,240	47.34	937,242

Nature of investments	Number of shares held	Percentage of shareholding	Share of profit of a joint venture for period ended	Carrying amount		Percentage to the Group's net assets	Investment cost
	as at 30 June 2018	as at 30 June 2018	30 June 2018	as at 30 June 2018	as at 31 December 2017	as at 30 June 2018	
		%	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	5,059	146,608	141,549	16.32	150,000

Nature of investments	Number of shares held	Percentage of shareholding	Unrealised loss on fair value change for period ended	Dividends received for period ended	Fair value		Percentage to the Group's net assets	Investment cost
	as at 30 June 2018	as at 30 June 2018	30 June 2018	30 June 2018	as at 30 June 2018	as at 31 December 2017	as at 30 June 2018	
		%	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 Ltd. ("Enerchina")	25,000,000	0.86	(2,875)	232	11,392	14,250	1.27	36,377

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.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2018 except one independent non-executive director and one non-executive director did not attend the annual general meeting of the Company held on 1 June 2018 ("2018 AGM") due to other business engagement. The Company considers that the members of the Board who attended the 2018 AGM were able to sufficiently answering questions from shareholders at the 2018 AGM.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by directors. Specific enquiries have been made on all directors who have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

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 six months ended 30 June 2018.

OTHER INFORMATION

REVIEW OF INTERIM 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 unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	NOTES	Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
FAIR VALUE LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	4	(2,875)	(72,873)
REVENUE	4	162,182	171,534
Cost of sales		(114,676)	(120,446)
Gross profit		47,506	51,088
Other income, gains and losses, net	5	10,721	(1,702)
Selling and distribution expenses		(15,001)	(16,928)
Administrative and operating expenses		(108,790)	(61,354)
Finance costs	6	(19,671)	(155)
Share of results of a joint venture		5,059	3,009
LOSS BEFORE TAX	7	(83,051)	(98,915)
Income tax expense	8	(49)	(837)
LOSS FOR THE PERIOD		(83,100)	(99,752)
LOSS ATTRIBUTABLE TO			
– Owners of the Company		(82,838)	(92,486)
– Non-controlling interest		(262)	(7,266)
		(83,100)	(99,752)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	10		
– Basic and diluted		HK0.85 cents	HK0.94 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(83,100)	(99,752)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	7,583	2,522
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	7,583	2,522
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(75,517)	(97,230)
Total comprehensive loss attributable to:		
Owners of the Company	(75,255)	(89,964)
Non-controlling interests	(262)	(7,266)
	(75,517)	(97,230)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	81,282	70,671
Intangible assets		21,947	15,808
Goodwill	12	201,725	201,725
Interests in a joint venture		146,608	141,549
Available-for-sale investments	13	–	411,240
Financial assets at fair value through profit or loss	14	425,429	–
Prepayments		23	8,772
		877,014	849,765
CURRENT ASSETS			
Inventories		35,071	22,551
Trade and bills receivables	15	87,268	75,251
Prepayments, deposits and other receivables		25,121	24,917
Financial assets at fair value through profit or loss	14	11,392	14,250
Derivate embedded in convertible bond	17	1,303	–
Restricted deposits		10,920	10,920
Cash and cash equivalents		255,776	348,655
		426,851	496,544
Non-current assets classified as held for sale		–	2,116
TOTAL CURRENT ASSETS		426,851	498,660
CURRENT LIABILITIES			
Trade and bills payables	16(a)	45,096	47,795
Other payables and accruals	16(b)	31,461	35,884
Contract liabilities – receipt in advance		10,832	–
Tax payable		3,947	4,080
Derivative embedded in convertible bond	17	–	1,827
Obligations under finance leases	18	5,182	1,536
		96,518	91,122
NET CURRENT ASSETS		330,333	407,538
TOTAL ASSETS LESS CURRENT LIABILITIES		1,207,347	1,257,303
NON-CURRENT LIABILITIES			
Deferred tax liabilities		42	56
Convertible bond	17	307,003	298,558
Obligations under finance leases	18	1,761	805
		308,806	299,419
Net assets		898,541	957,884

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
EQUITY		
Equity attributable to owners of the Company		
Share capital	97,973	97,973
Reserves	800,288	859,369
	898,261	957,342
Non-controlling interests	280	542
	898,541	957,884

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

Note	Attributable to owners of the Company								Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000		
At 1 January 2017	97,973	1,769,428	45,291	(34,425)	-	(3,744)	(689,604)	1,184,919	8,493	1,193,412
Loss for the period	-	-	-	-	-	-	(92,486)	(92,486)	(7,266)	(99,752)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	2,522	-	2,522	-	2,522
Total comprehensive income/(loss) for the period	-	-	-	-	-	2,522	(92,486)	(89,964)	(7,266)	(97,230)
Recognition of equity settled share-based payments	19	-	-	-	5,020	-	-	5,020	-	5,020
At 30 June 2017	97,973	1,769,428	45,291	(34,425)	5,020	(1,222)	(782,090)	1,099,975	1,227	1,101,202

Note	Attributable to owners of the Company								Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000		
At 1 January 2018	97,973	1,769,428	45,291	(34,425)	10,006	3,938	(934,069)	957,342	542	957,884
Impact on initial application of HKFRS 15	-	-	-	-	-	(87)	(3,337)	(3,424)	-	(3,424)
Impact on initial application of HKFRS 9	-	-	-	-	-	-	9,514	9,514	-	9,514
At 1 January 2018	97,973	1,769,428	45,291	(34,425)	10,006	3,851	(928,692)	963,432	542	963,974
Loss for the period	-	-	-	-	-	-	(82,838)	(82,838)	(282)	(83,100)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	7,583	-	7,583	-	7,583
Total comprehensive income/(loss) for the period	-	-	-	-	-	7,583	(82,838)	(75,255)	(282)	(75,517)
Recognition of equity settled share-based payments	19	-	-	-	10,084	-	-	10,084	-	10,084
At 30 June 2018	97,973	1,769,428	45,291	(34,425)	20,090	11,434	(1,011,530)	888,261	280	888,541

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Cash used in operations		(66,164)	(46,088)
Interest received		874	90
Interest paid		(11,226)	(155)
Profits tax paid		(196)	(92)
Net cash flows used in operating activities		(76,712)	(46,245)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(42,050)	(3,433)
Proceeds from disposal of property, plant and equipment		30,993	796
Acquisition of subsidiary	20	–	(21,900)
Additions to intangible asset		(5,739)	–
Net cash flows used in investing activities		(16,796)	(24,537)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest-bearing other borrowings		–	(12,022)
Repayment of finance lease		(2,474)	–
Net cash flows used in financing activities		(2,474)	(12,022)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		348,655	206,054
Effect of foreign exchange rate changes, net		3,103	1,832
CASH AND CASH EQUIVALENTS AT END OF PERIOD		255,776	125,082

1. CORPORATE 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 period, 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 advertising display services; (ii) the manufacture and sale of packaging products; and (iii) investments and trading in securities and money lending.

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017.

These unaudited interim condensed consolidated financial statements have been prepared under the historical cost conversion, except for equity investments classified as financial assets at fair value through profit or loss which have been measured at fair value. These unaudited interim condensed consolidated financial statements are prepared in Hong Kong dollar (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION *(Continued)*

The accounting policies and basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, except for the adoption of the new and revised HKFRSs for the first time for the current period financial information. Of these, the following developments are relevant to the Group's interim condensed consolidated financial statements:

HKFRS 9	<i>Financial instruments</i>
HKFRS 15	<i>Revenue from contracts with customers</i>

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Under the transition provisions applied, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the condensed consolidated statement of financial position that has been impacted by HKFRS 9 and/or HKFRS 15:

	At 31 December 2017 HK\$'000	Impact on initial application of HKFRS 9 (note 2(a)) HK\$'000	Impact on initial application of HKFRS 15 (note 2(b)) HK\$'000	At 1 January 2018 HK\$'000
Available-for-sale investments	411,240	(411,240)	-	-
Financial assets at fair value through profit or loss	14,250	420,754	-	435,004
Inventories	22,551	-	1,500	24,051
Trade and bills receivables	75,251	-	(5,198)	70,053
Prepayments, deposits and other receivables	24,917	-	274	25,191
Contract liabilities	-	-	10,013	10,013
Other payables and accruals	35,884	-	(10,013)	25,871
Translation reserve	3,938	-	(87)	3,851
Accumulated losses	(934,869)	9,514	(3,337)	(928,692)

2. BASIS OF PREPARATION *(Continued)*

(a) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*

HKFRS 9 replaced HKAS 39, *Financial instruments: recognition and measurement*. HKFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39 and is not restated.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

- (i) Classification of financial assets and financial liabilities
HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVTOCI”) and at fair value through profit or loss (“FVTPL”). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

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2. BASIS OF PREPARATION *(Continued)*

(a) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*

(Continued)

- (i) Classification of financial assets and financial liabilities *(Continued)*
- Non-equity investments held by the Group are classified into one of the following measurement categories:
- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
 - FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
 - FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as FVTPL or FVTOCI (non-recycling), are recognised in profit or loss as other income.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION *(Continued)*

(a) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* *(Continued)*

(i) Classification of financial assets and financial liabilities *(Continued)*

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciliations of the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 HK\$'000	Reclassification HK\$'000	Remeasurement (note (ii)) HK\$'000	HKFRS 9 carrying amount at 1 January 2018 HK\$'000
Financial assets				
measured at FVTPL				
Equity securities (note (i))	14,250	411,240	9,514	435,004
Financial assets classified				
as available-for-sale				
investments under				
HKAS 39 (note (i))	411,240	(411,240)	-	-

Notes:

- (i) Under HKAS 39, unlisted equity investments that were not held for trading were classified as available-for-sale financial assets and carried at cost less impairment. These unlisted equity investments are classified as FVTPL under HKFRS 9.
- (ii) The remeasurement represented the fair value change of financial assets originally classified as available-for-sale financial assets carried at cost less impairment.

The measurement categories for all financial liabilities remain the same.

The Group did not designate or de-designate any financial liability at FVTPL at 1 January 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION *(Continued)*

(a) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*

(Continued)

(ii) Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit losses” (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and bills receivables and prepayments, deposits and other receivables); and
- contract assets as defined in HKFRS 15.

Financial assets measured at fair value, including equity securities measured at FVTPL and embedded derivative or convertible bond, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

2. BASIS OF PREPARATION *(Continued)*

(a) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* *(Continued)*

(ii) Credit losses *(Continued)*

Measurement of ECLs (Continued)

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and bills receivables, prepayments, deposits and other receivables and contract assets are always measured at an amount equal to lifetime ECL. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION *(Continued)*

(a) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* *(Continued)*

(ii) Credit losses *(Continued)*

Significant increases in credit risk (Continued)

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis.

When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2. BASIS OF PREPARATION *(Continued)*

(a) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* *(Continued)*

(ii) Credit losses *(Continued)*

Significant increases in credit risk (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION *(Continued)*

(a) **HKFRS 9, *Financial instruments***, including the amendments to **HKFRS 9, *Prepayment features with negative compensation***
(Continued)

(ii) Credit losses *(Continued)*

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

At 1 January 2018, the Group assessed the impact of expected loss allowance is not significant to the Group.

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

2. BASIS OF PREPARATION *(Continued)*

(b) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaced HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

	Carrying amount at 31 December 2017 HK\$'000	Reclassification HK\$'000	Delay in revenue recognition HK\$'000	Carrying amount at 1 January 2018 HK\$'000
Inventories	22,551	-	1,500	24,051
Trade and bills receivables	75,251	-	(5,198)	70,053
Prepayments, deposits and other receivables	24,917	-	274	25,191
Contract liabilities	-	10,013	-	10,013
Other payables and accruals	35,884	(10,013)	-	25,871

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION *(Continued)*

(b) HKFRS 15, *Revenue from contracts with customers (Continued)*

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to contracts in progress were presented in the consolidated statement of financial position under “prepayment, deposits and other receivables” or “other payables and accruals” respectively, and work in progress in respect of the Group’s made-to-order arrangements was included within inventory until the products were delivered to the customer and the revenue was recognised.

To reflect these changes, receipt in advance amounting to HK\$10,013,000 was reclassified as contract liabilities from other payables and accruals at 1 January 2018, as a result of the adoption of HKFRS 15.

(ii) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- A. When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;

2. BASIS OF PREPARATION *(Continued)*

(b) HKFRS 15, *Revenue from contracts with customers (Continued)*

- (ii) Timing of revenue recognition *(Continued)*
 - B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
 - C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue except for the following:

For development of custom software services under QR code business segment, the Group's contracts with customers are made-to-order where the Group develops the software specially in accordance with the customer's specification. Under HKAS 18, the Group recognised such revenue using percentage of completion. Upon the application of HKFRS 15, revenue from development of custom software services is generally recognised at a point in time at which the customer acceptance has been obtained which is the point in time when the customer has the ability to direct the use of the custom software. In addition, the services contracts do not meet the criteria for recognising revenue over the time. As a result of this change in accounting policy, the Group has made adjustments to opening balances at 1 January 2018 which decreased retained earnings by HK\$3,337,000, increased inventories by HK\$1,500,000, decreased trade and bills receivables by HK\$5,198,000, increased prepayments, deposits and other receivables by HK\$274,000, and decreased translation reserve by HK\$87,000.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION *(Continued)*

(c) **Impact of standards issued but not yet applied by the Company**

HKFRS 16 was issued on May 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$22,993,000. The Group estimates that approximately 7% of these relate to payments for short-term and low value leases which will continue to be accounted for based on the current accounting model.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

3. OPERATING SEGMENT INFORMATION

The Group has three reportable segments. The segments are managed separately as each business offers different products or provides different services and requires different business strategies.

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

- | | | |
|-----------------------------|---|---|
| QR code business segment | — | Provision of QR code on product packaging and solutions and 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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3. OPERATING SEGMENT INFORMATION *(Continued)*

There were no inter-segment sale during the period (six months ended 30 June 2017: Nil). Corporate and unallocated income, gains and losses 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.

For the six months ended 30 June

	QR code business		Packaging products		Treasury investment		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	(Unaudited) HK\$'000							
Group's revenue	37,178	31,697	124,772	139,837	232	-	162,182	171,534
Fair value losses on financial assets at fair value through profit or loss, net	-	-	-	-	(2,875)	(72,873)	(2,875)	(72,873)
Segment revenue	37,178	31,697	124,772	139,837	(2,643)	(72,873)	159,307	98,661
Segment results	(52,625)	(21,703)	(680)	8,878	(2,664)	(72,895)	(55,969)	(85,720)
Corporate and unallocated income, gains and losses							7,353	(1,702)
Corporate and unallocated expenses							(19,823)	(14,347)
Share of results of a joint venture							5,059	3,009
Finance costs							(19,671)	(155)
Loss before tax							(83,051)	(98,915)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, value of services rendered, net fair value gains and losses on financial assets at fair value through profit or loss and dividend income on investment portfolio.

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Provision of QR code service	36,304	31,697
Sale of packaging products	124,772	139,837
Advertising income	874	–
Dividend income from financial assets at fair value through profit or loss	232	–
	162,182	171,534
Fair value losses on financial assets at fair value through profit or loss, net*	(2,875)	(72,873)

* There were no gross proceeds from the disposal of listed equity investments at fair value through profit or loss for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$39,378,000).

The revenue for the six months ended 30 June 2018 were categorised by timing of revenue recognition at (i) a point in time of HK\$147,712,000 and (ii) over time of HK\$14,470,000.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

4. REVENUE *(Continued)*

Revenue analysed by geographical locations of customers is presented as follows:

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
QR code business		
– PRC	36,304	31,697
Packaging products		
– Hong Kong and the PRC	54,813	83,369
– Europe	44,871	37,027
– North and South America	14,702	12,720
– Others	10,386	6,721
	124,772	139,837
Advertising income		
– PRC	874	–
Treasury investment		
– Hong Kong	(2,643)	(72,873)
	159,307	98,661

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

5. OTHER INCOME, GAINS AND LOSSES, NET

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

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Bank interest income	874	90
Foreign exchange differences, net	(1,327)	(2,028)
Gain on disposal of property, plant and equipment	2,405	(113)
Gross rental income	24	294
Fair value gain on embedded derivative in convertible bond	3,130	–
Fair value change on financial assets at fair value through profit or loss	4,676	–
Impairment of trade receivables	(161)	–
Others	1,100	55
	10,721	(1,702)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

6. FINANCE COSTS

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Interest expense on convertible bond	19,365	–
Interest on obligations under finance leases	306	–
Interest expense on other borrowings	–	155
	19,671	155

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Depreciation	12,761	2,844
Amortisation of intangible assets	210	199
Employee benefits expenses (including directors' remuneration):		
Salaries, wages and other benefits	74,436	54,467
Pension scheme contributions	4,872	3,819
Equity-settled share based payments	10,084	5,020
	89,392	63,306

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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8. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits outstanding in Hong Kong during the period. In accordance with the PRC Corporate Income Tax Law, the PRC Corporate Income Tax is calculated at a statutory rate of 25% (six months ended 30 June 2017: 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%. Certain of the Group's PRC 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 period.

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Current tax — Hong Kong Profits Tax		
Provision for the period	(505)	818
Current tax — PRC Corporate Income Tax	568	—
Deferred tax	63 (14)	818 19
	49	837

9. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

* For identification purposes only

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic and diluted loss per share attributable to owners of the Company for the six months ended 30 June 2018 and 2017 are based on the following data:

	Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Loss for the period attributable to owners of the Company	82,838	92,486
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	'000 9,797,311	'000 9,797,311

No adjustment has been made to the basic loss per share amount presented for the both six months ended 30 June 2018 and 2017 in respect of a dilution as the impact of the share options has an anti-dilutive effect on the basic loss per share amounts presented.

The computation of diluted loss per share for the six months ended 30 June 2018 does not assume the conversion of the Company's outstanding convertible bond since their assumed exercise would result in a decrease in loss per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group incurred HK\$49,126,000 (six months ended 30 June 2017: HK\$3,433,000) on the acquisition of property, plant and equipment. Property, plant and equipment with aggregate carrying amount of HK\$28,588,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$909,000).

As at 30 June 2018, included in property, plant and equipment were amount of HK\$8,569,000 (31 December 2017: HK\$2,587,000) held under finance lease.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12. GOODWILL

	HK\$'000
Cost	
At 1 January 2017	530,072
Acquisition of 信碼互通(北京)科技有限公司 (Sigmatrix Technology Co., Ltd*) ("Sigmatrix")	39,875
At 31 December 2017 and 30 June 2018	569,947
Accumulated impairment losses	
At 1 January 2017	263,558
Impairment losses	104,664
At 31 December 2017 and 30 June 2018	368,222
Net carrying amount	
At 30 June 2018	201,725
At 31 December 2017	201,725

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, a subsidiary of the Group engaged in the provision of QR code on product packaging acquired in March 2017.

13. AVAILABLE-FOR-SALE INVESTMENTS

The amounts of available-for-sale investments of HK\$411,240,000 as at 31 December 2017 was classified as financial assets at fair value through profit or loss upon initial application of HKFRS 9 as at 1 January 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Non-current assets		
Unlisted equity investments, at fair value (Note (a))		
Company A	279,297	–
Company B	67,500	–
Company C	5,765	–
Company D	72,867	–
	425,429	–
Current assets		
Listed equity investments, at fair value (Note (b))	11,392	14,250

Notes:

- (a) The unlisted equity investments relate to investments in four private entities, which were intended to hold for long-term strategic purpose at the time of acquisition. The four private entities are engaged in the provision of advisory and financial services, property holding, investment in securities trading and money lending.

These investments were reclassified from available-for-sale investments of HK\$411,240,000 at 1 January 2018 after the adoption of HKFRS 9 and a fair value gain of HK\$9,514,000 was recognised upon initial application of HKFRS 9 as detailed in Note 2. The fair value of these investments as at 1 January 2018 and 30 June 2018 were estimated by management based on the recent market transactions.

- (b) The above financial assets at 30 June 2018 and 31 December 2017 were classified as held for trading and were, upon initial recognition, classified by the Group at financial assets at fair value through profit or loss.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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15. TRADE AND BILLS RECEIVABLES

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Trade and bills receivables	87,429	75,251
Less: Impairment	(161)	–
	87,268	75,251

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 to 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:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 1 month	38,909	34,125
1 to 2 months	15,236	25,755
2 to 3 months	9,382	4,624
Over 3 months	23,741	10,747
	87,268	75,251

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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16. TRADE AND BILLS PAYABLES/OTHER PAYABLES AND ACCRUALS

(a) 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:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 1 month	26,612	29,078
1 to 2 months	13,172	13,054
2 to 3 months	2,656	3,030
Over 3 months	2,656	2,633
	45,096	47,795

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

(b) Other payables and accruals

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Deposits received	–	13,502
Other payables	15,281	6,996
Accruals	16,180	15,386
	31,461	35,884

17. 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 (“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 over 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 six months ending 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.

* For identification purposes only

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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17. CONVERTIBLE BOND *(Continued)*

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 CB contains 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 United States dollars ("US\$") 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.

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17. CONVERTIBLE BOND *(Continued)*

The movement of the components of the convertible bond for the six months ended 30 June 2018 is set out below:

	Debt component HK\$'000	Derivative component HK\$'000	Total HK\$'000
Carrying amount at the beginning of the period	298,558	1,827	300,385
Interest charge	19,365	–	19,365
Repayment of convertible bond interest	(10,920)	–	(10,920)
Change in fair value	–	(3,130)	(3,130)
Carrying amount at the end of the period	307,003	(1,303)	305,700
Classified as:			
Current asset	–	(1,303)	
Non-current liability	307,003	–	

18. OBLIGATIONS UNDER FINANCE LEASES

As at 30 June 2018 and 31 December 2017, the Group had obligations under finance leases as follows:

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within one year	5,182	5,509	1,536	1,649
More than one year, but not exceeding two years	1,761	1,898	805	825
	6,943	7,407	2,341	2,474
Less: future finance charges		(464)		(133)
Present value of lease obligations		6,943		2,341

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19. 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.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of approval of the refreshment of the Scheme mandate limit on 20 October 2016. The maximum number of shares issuable under the Scheme to each eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

19. SHARE OPTION SCHEME *(Continued)*

The offer of a grant of share options may be accepted within 14 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, save that such period shall not be more than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) closing price of the Company’s shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of an issued ordinary share of the Company on the date of offer of the share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

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 period were listed below:

Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1 January 2018	Lapsed/ cancelled during the period	Number of options outstanding at 30 June 2018
25/01/2017	0.335	02/07/2018 to 01/07/2022	28,025,000	(5,310,000)	22,715,000
25/01/2017	0.335	02/07/2019 to 01/07/2022	28,025,000	(5,310,000)	22,715,000
25/01/2017	0.335	02/07/2020 to 01/07/2022	28,025,000	(5,310,000)	22,715,000
25/01/2017	0.335	02/07/2021 to 01/07/2022	28,025,000	(5,310,000)	22,715,000
			112,100,000	(21,240,000)	90,860,000

The above options were vested on 2 July 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

19. SHARE OPTION SCHEME (Continued)

Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1 January 2018	Lapsed/ cancelled during the period	Number of options outstanding at 30 June 2018
12/12/2017	0.335	10/06/2019 to 09/06/2023	24,412,500	(150,000)	24,262,500
12/12/2017	0.335	10/06/2020 to 09/06/2023	24,412,500	(150,000)	24,262,500
12/12/2017	0.335	10/06/2021 to 09/06/2023	24,412,500	(150,000)	24,262,500
12/12/2017	0.335	10/06/2022 to 09/06/2023	24,412,500	(150,000)	24,262,500
			97,650,000	(600,000)	97,050,000

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, 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 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 six months ended 30 June 2018, the Group recognised an expense of HK\$10,084,000 (six months ended 30 June 2017: HK\$5,020,000) as equity-settled share based payments in the condensed consolidated statement of profit or loss with reference to their respective vesting period.

20. ACQUISITION OF A SUBSIDIARY

On 27 March 2017, the Group acquired entire interest of Sigmatrix at a cash consideration of RMB55,000,000 (equivalent to approximately HK\$62,210,000). Sigmatrix is principally engaged in the technological development, marketing, research and development of the QR codes packaging business in the PRC.

Consideration transferred

	HK\$'000
Cash	27,998
Consideration payables	34,212
Total consideration	62,210

Assets and liabilities recognised at the date of acquisition (determined on a provisional basis)

	HK\$'000
Non-current assets	12,430
Current assets	18,536
Current liabilities	(8,631)
	22,335

Goodwill arising on acquisition (determined on a provisional basis)

	HK\$'000
Consideration transferred	62,210
Less: recognised amount of identifiable net assets acquired (100%)	(22,335)
Provisional goodwill arising on acquisition of Sigmatrix	39,875

Goodwill arose from the acquisition of Sigmatrix because the cost of the business combination effectively included amounts in relation to the benefit of expected synergies effect to QR code business, strengthening packaging business by upgrading the information technology capabilities of its packaging business, future revenue growth and future market development of Sigmatrix.

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20. ACQUISITION OF A SUBSIDIARY *(Continued)*

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

Net cash outflow arising on acquisition:

	HK\$'000
Consideration paid in cash	27,998
Less: cash and cash equivalent balances acquired	(6,098)
	21,900

Included in the loss for the six months ended 30 June 2017 is HK\$6,518,000 attributable to Sigmatrix. Revenue for the six months ended 30 June 2017 includes HK\$2,422,000 is attributable to Sigmatrix.

21. CAPITAL COMMITMENTS

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

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	159	13,871

22. PLEDGE OF ASSETS

As at 30 June 2018, the Group's equity interest in Apex Capital Business Limited and its subsidiaries were pledged to secure the HK\$307.0 million (31 December 2017: HK\$298.6 million) convertible bond.

23. CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any contingent liabilities (31 December 2017: Nil).

24. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT OTHER THAN FAIR VALUE

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost were not materially different from their fair values as at 30 June 2018 and 31 December 2017.

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The Group's finance department headed by a director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the directors and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the directors. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity investments are based on quoted market prices. The Binomial tree option pricing model is used for the fair value of the embedded derivative of the CB. The directors believe that the estimated fair values, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss and other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 30 June 2018

At fair value measurement:

	Fair value measurement using			Total (Unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
Financial assets at fair value through profit or loss:				
Listed equity investments	11,392	–	–	11,392
Unlisted equity investments	–	425,429	–	425,429
Financial assets				
Derivative embedded in the CB	–	–	1,303	1,303

As at 31 December 2017

At fair value measurement:

	Fair value measurement using			Total (Audited) HK\$'000
	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	
Financial assets at fair value through profit or loss:				
Listed equity investments	14,250	–	–	14,250
Financial liabilities				
Derivative embedded in the CB	–	–	1,827	1,827

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

During the six months ended 30 June 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (31 December 2017: None). The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information of level 3 fair value measurements

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2018 and 31 December 2017:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the inputs
Derivative embedded in the CB	Binomial tree option pricing model	Risk free rate	2.390% (31 December 2017: 1.862% to 1.958%)	1% increase in risk-free rate would result in decrease in fair value by HK\$66,000 (31 December 2017: HK\$281,000)
		Expected volatility	61.84% (31 December 2017: 52.29%)	10% increase in volatility would result in increase in fair value by HK\$604,000 (31 December 2017: HK\$1,441,000)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy

	Derivative embedded in the CB HK\$'000
Issuance of the CB on 10 November 2017	16,342
Net gains from fair value adjustment recognised in profit or loss	(14,515)
Carrying amount as at 31 December 2017	1,827
Net gains from fair value adjustment recognised in profit or loss	(3,130)
Carrying amount as at 30 June 2018	(1,303)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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26. MATERIAL RELATED PARTY TRANSACTIONS

Relationship	Type of transaction	Six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
A company controlled by a director of the Company	Purchase of goods	17	–

Notes:

- (i) The directors of the Company are of the opinion that the above transactions were entered into at terms agreed by both parties and the terms of the transactions were determined by the directors with reference to the terms of similar transactions with unrelated third parties.
- (ii) The related party transactions in respect of the purchase of goods above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

27. EVENTS AFTER THE 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 11.78% of the entire issued share capital of Win Wind Capital Limited (“Win Wind”) 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 “Promissory Note”). The Promissory Note bears zero coupon rate with maturity date of 30 June 2019. The Company will cease to hold any beneficial interest in Win Wind upon completion.

The transaction has been completed subsequent to 30 June 2018.