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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](http://www.chinatouyun.com.hk)

**(Stock Code: 1332)**

### ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 together with comparative figures for the previous year as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2018 HK\$'000	2017 HK\$'000
<b>Fair value losses on financial assets at fair value through profit or loss held for trading, net</b>	4	(1,307)	(80,248)
<b>Revenue</b>	4	350,077	397,947
Cost of sales		(254,090)	(279,925)
<b>Gross profit</b>		95,987	118,022
Other income, gains and losses, net	5	(72,789)	(111,520)
Selling and distribution expenses		(31,645)	(34,170)
Administrative expenses		(207,708)	(138,368)
Finance costs	6	(41,807)	(5,693)
Share of result of a joint venture		19	2,990
Share of result of an associate		7,276	–
<b>Loss before tax</b>	7	(251,974)	(248,987)
Income tax	8	(1,989)	(4,229)
<b>Loss for the year</b>		(253,963)	(253,216)

	<i>Note</i>	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
<b>Loss for the year attributable to:</b>			
— Owners of the Company		(253,877)	(245,226)
— Non-controlling interests		<u>(86)</u>	<u>(7,990)</u>
		<u><b>(253,963)</b></u>	<u>(253,216)</u>
<b>Loss per share attributable to owners of the Company</b>	<i>10</i>	<u><b>HK(2.59) cents</b></u>	<u>HK(2.50) cents</u>

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Loss for the year</b>	<b>(253,963)</b>	(253,216)
<b>Other comprehensive income</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>1,367</u>	<u>7,682</u>
<b>Other comprehensive income for the year, net of tax</b>	<u>1,367</u>	<u>7,682</u>
<b>Total comprehensive loss for the year</b>	<u><b>(252,596)</b></u>	<u>(245,534)</u>
Total comprehensive loss attributable to:		
Owners of the Company	<b>(252,510)</b>	(237,544)
Non-controlling interests	<u>(86)</u>	<u>(7,990)</u>
	<u><b>(252,596)</b></u>	<u>(245,534)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b><i>Non-current assets</i></b>			
Property, plant and equipment		<b>36,423</b>	70,671
Intangible assets		<b>16,054</b>	15,808
Goodwill	<i>11</i>	<b>164,702</b>	201,725
Interests in a joint venture	<i>12</i>	–	141,549
Interests in an associate	<i>12</i>	<b>148,844</b>	–
Available-for-sale investments	<i>13</i>	–	411,240
Financial assets at fair value through profit or loss	<i>14</i>	<b>243,009</b>	–
Prepayments		–	8,772
<b>Total non-current assets</b>		<b>609,032</b>	849,765
<b><i>Current assets</i></b>			
Inventories		<b>35,597</b>	22,551
Trade and bills receivables	<i>15</i>	<b>61,804</b>	75,251
Prepayments, deposits and other receivables		<b>16,140</b>	24,917
Note receivable	<i>16</i>	<b>188,440</b>	–
Financial assets at fair value through profit or loss	<i>14</i>	<b>24,250</b>	14,250
Restricted deposits		<b>10,928</b>	10,920
Cash and cash equivalents		<b>97,513</b>	348,655
		<b>434,672</b>	496,544
Non-current assets classified as held for sale		–	2,116
<b>Total current assets</b>		<b>434,672</b>	498,660
<b><i>Current liabilities</i></b>			
Trade payables	<i>17</i>	<b>42,121</b>	47,795
Contract liabilities		<b>28,883</b>	–
Other payables and accruals		<b>17,883</b>	35,884
Tax payable		<b>4,926</b>	4,080
Derivative embedded in convertible bond	<i>18</i>	<b>3,140</b>	1,827
Convertible bond	<i>18</i>	<b>219,461</b>	–
Obligations under finance lease	<i>19</i>	–	1,536
<b>Total current liabilities</b>		<b>316,414</b>	91,122
<b>Net current assets</b>		<b>118,258</b>	407,538
<b>Total assets less current liabilities</b>		<b>727,290</b>	1,257,303
<b><i>Non-current liabilities</i></b>			
Deferred tax liabilities		<b>42</b>	56
Convertible bond	<i>18</i>	–	298,558
Obligations under finance lease	<i>19</i>	–	805
		<b>42</b>	299,419
<b>Net assets</b>		<b>727,248</b>	957,884

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	97,973	97,973
Reserves	<u>628,819</u>	<u>859,369</u>
	<b>726,792</b>	957,342
<b>Non-controlling interests</b>	<u>456</u>	<u>542</u>
<b>Total equity</b>	<u><u>727,248</u></u>	<u><u>957,884</u></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 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 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 equity investments classified as financial assets at fair value through profit or loss and derivative component of convertible bond, 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 2018. 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 profit or loss 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 2018, the Group has applied, for the first time, the following new and revised standards issued by the HKICPA.

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from contracts with customers
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKAS 40	Transfers of investment property
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impact of the adoption of HKFRS 9 and HKFRS 15 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 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(b)(i)) HK\$'000	Impact on initial application of HKFRS 15 (note 2(b)(ii)) 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)

(i) *Impacts of changes in accounting policies on HKFRS 9 “Financial instruments”*

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:

(a) *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.

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 measurement categories for all financial liabilities remain the same.



The Group did not designate or de-designate any financial assets at FVTOCI nor any financial liability at FVTPL at 1 January 2018.

(b) *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 deposits and other receivables) and note receivable; and
- contract assets as defined in HKFRS 15.

Financial assets measured at fair value, including equity securities measured at FVTPL, 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.

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, 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.

For all other financial instruments, the Group recognised a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

*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 both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly 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;
- 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; and
- past due information.

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.

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.

*Write-off policy and default*

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 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, based on historical default experience and after taking into account forward looking information.

**(ii) 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.

**(a) 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 software development service 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.

*(b) Timing of revenue recognition*

Previously, revenue arising from 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;
- 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 the percentage of completion method. Upon the application of HKFRS 15, revenue from made-to-order software development 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.

### 3. 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 an associate and head office and corporate income and expenses are excluded from such measurement.

There was no inter-segment sale or transfer during the year (2017: 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.

	QR code business		Packaging products		Treasury investment		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group's revenue	73,405	78,791	276,225	318,656	447	500	350,077	397,947
Fair value losses on financial assets at fair value through profit or loss held for trading, net	-	-	-	-	(1,307)	(80,248)	(1,307)	(80,248)
Segment revenue	<u>73,405</u>	<u>78,791</u>	<u>276,225</u>	<u>318,656</u>	<u>(860)</u>	<u>(79,748)</u>	<u>348,770</u>	<u>317,699</u>
Segment results	<u>(195,734)</u>	<u>(157,723)</u>	<u>8,423</u>	<u>25,947</u>	<u>(890)</u>	<u>(79,874)</u>	<u>(188,201)</u>	<u>(211,650)</u>
Corporate and unallocated income, gains and losses							5,696	(5,978)
Corporate and unallocated expenses							(34,957)	(28,656)
Share of result of a joint venture							19	2,990
Share of result of an associate							7,276	-
Finance costs							(41,807)	(5,693)
Loss before tax							<u>(251,974)</u>	<u>(248,987)</u>
<b>Other segment information:</b>								
Capital expenditure								
— operating segment	44,935	51,379	39	3,662	-	-	44,974	55,041
— unallocated							13	25
							<u>44,987</u>	<u>55,066</u>
Interest income								
— operating segment	849	160	28	46	-	-	877	206
— unallocated							10,610	2
							<u>11,487</u>	<u>208</u>
Depreciation								
— operating segment	18,941	7,422	1,719	1,518	-	-	20,660	8,940
— unallocated							9	10
							<u>20,669</u>	<u>8,950</u>
Amortisation	7,838	435	-	-	-	-	7,838	435
Loss/(gain) on disposal of property, plant and equipment	2,385	1,633	-	(190)	-	-	2,385	1,443
Impairment loss of property, plant and equipment	40,718	-	-	-	-	-	40,718	-
Impairment loss of trade receivables, net	2,016	17	-	49	-	-	2,016	66
Impairment loss of goodwill	37,023	104,664	-	-	-	-	37,023	104,664

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

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
QR code business:		
— PRC	<u>73,405</u>	<u>78,791</u>
Packaging products:		
— Hong Kong and the PRC	<b>128,218</b>	188,050
— Europe	<b>91,629</b>	81,280
— North and South America	<b>34,307</b>	30,674
— Others	<u>22,071</u>	<u>18,652</u>
	<b>276,225</b>	318,656
Treasury investment:		
— Hong Kong	<u>(860)</u>	<u>(79,748)</u>
Segment revenue	<u><b>348,770</b></u>	<u>317,699</u>

The geographical locations of the Group's non-current assets, except for financial assets at fair value through profit or loss (2017: available-for-sale investments) are analysed as follows:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Hong Kong	<b>149,790</b>	295,539
Mainland China	<u>216,233</u>	<u>142,986</u>
	<u><b>366,023</b></u>	<u>438,525</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:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Customer A	<b>45,559</b>	96,766
Customer B	<u>39,268</u>	<u>N/A</u>

#### 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:

	<b>2018</b>	2017
	<b>HK\$'000</b>	<i>(note (i))</i> HK\$'000
Manufacturing and sales of packaging products	<b>276,225</b>	318,656
Provision of QR code products packaging and solutions	<b>71,625</b>	73,545
Advertising display service income	<b>1,780</b>	5,246
	<u><b>349,630</b></u>	<u>397,447</u>
	-----	-----
Dividend income from financial assets at fair value through profit or loss held for trading	<u><b>447</b></u>	<u>500</u>
	<u><b>350,077</b></u>	<u>397,947</u>
	-----	-----
Fair value losses on financial assets at fair value through profit or loss held for trading, net <i>(note (ii))</i>	<u><b>(1,307)</b></u>	<u>(80,248)</u>
	-----	-----

*Notes:*

- (i) The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.
- (ii) During the year ended 31 December 2018, the Group did not dispose of any listed equity investments classified as financial assets at fair value through profit or loss held for trading. During the year ended 31 December 2017, 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.

The revenue within the scope of HKFRS 15 for the year ended 31 December 2018 were categorised by timing of revenue recognition at (i) a point in time of HK\$347,850,000 and (ii) over time of HK\$1,780,000.



## 5. OTHER INCOME, GAINS AND LOSSES, NET

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

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bank interest income	<b>962</b>	208
Imputed interest income from note receivable	<b>10,525</b>	–
Dividend in specie from available-for-sale investment	–	53,217
Sale of scrap materials	<b>127</b>	100
Gain on disposal of subsidiaries, net	<b>711</b>	–
Gain on dilution of interests in a joint venture	–	2,533
Gain on partial redemption of note receivable	<b>12,761</b>	–
Loss on early redemption of convertible bond	<b>(3,843)</b>	–
Fair value (loss)/gain on derivative component of convertible bond (including changes arising from early redemption of convertible bond)	<b>(1,313)</b>	14,515
Fair value loss of financial assets at FVTPL (not held for trading), net	<b>(12,791)</b>	–
Foreign exchange differences, net	<b>(756)</b>	(4,465)
Impairment loss of property, plant and equipment	<b>(40,718)</b>	–
Impairment loss of goodwill	<b>(37,023)</b>	(104,664)
Impairment loss of trade receivables, net	<b>(2,016)</b>	(66)
Impairment loss of available-for-sale investments	–	(72,168)
Other receivable written off	<b>(675)</b>	–
Loss on disposal of property, plant and equipment, net	<b>(2,385)</b>	(1,443)
Others	<b>3,645</b>	713
	<b><u>(72,789)</u></b>	<b><u>(111,520)</u></b>

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest expense on convertible bond*	<b>41,187</b>	5,461
Interest on obligations under finance lease	<b>620</b>	76
Interest expense on other borrowings	–	156
	<b><u>41,807</u></b>	<b><u>5,693</u></b>

\* Included in the interest expense on convertible bond was an amount of HK\$5,641,000 related to accelerated interest expense for the breach of financial covenants of convertible bond agreement.

## 7. LOSS BEFORE TAX

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Auditor's remuneration	1,350	1,200
Cost of inventories sold	254,090	279,925
Depreciation	20,669	8,950
Amortisation of intangible assets	7,838	435
Minimum lease payments under operating leases	15,152	12,901
	<u>42,201</u>	<u>42,586</u>
Research and development cost	42,201	42,586
Less: Capitalised amount	(8,862)	(13,398)
	<u>33,339</u>	<u>29,188</u>
Employee benefits expenses (including directors' remuneration):		
Wages and salaries	63,193	114,489
Pension scheme contributions	7,355	9,086
	<u>70,548</u>	<u>123,575</u>
Equity-settled share option expense	15,870	10,006

## 8. INCOME TAX

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax — Hong Kong Profits Tax		
Provision for the year	716	3,886
Current tax — PRC Corporate Income Tax		
Provision for the year	1,287	369
Under-provision in respect of previous year	–	90
	<u>2,003</u>	<u>4,345</u>
Deferred tax	(14)	(116)
	<u>1,989</u>	<u>4,229</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, for the year ended 31 December 2018, the Hong Kong Profits Tax of Qualipak Manufacturing Limited, a subsidiary of the Group, is calculated at 8.25% on the first HK\$2,000,000 of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2,000,000 and profits of other group entities in Hong Kong are taxed at 16.5%.

For the year ended 31 December 2017, Hong Kong Profit Tax was calculated at 16.5%.

In accordance with the PRC Corporate Income Tax Law, the PRC Corporate Income Tax is calculated at a statutory rate of 25% (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%.

## 9. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2017: Nil).

## 10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic and diluted loss per share attributable to ordinary equity shareholders of the Company for the years ended 31 December 2018 and 2017 are based on the following data:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loss for the year attributable to equity shareholders of the Company	<u>(253,877)</u>	<u>(245,226)</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>9,797,311</u>

The computation of diluted loss per share for the years ended 31 December 2018 and 2017 does not assume the conversion of the Company's outstanding convertible bonds and the exercise of share options since their assumed exercise would result in a decrease in loss per share.

## 11. GOODWILL

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Cost</b>		
1 January	<b>569,947</b>	530,072
Arising on acquisition of a subsidiary	<u>–</u>	<u>39,875</u>
31 December	<u><b>569,947</b></u>	<u>569,947</u>
<b>Accumulated impairment losses</b>		
1 January	<b>368,222</b>	263,558
Impairment loss for the year	<u><b>37,023</b></u>	<u>104,664</u>
31 December	<u><b>405,245</b></u>	<u>368,222</u>
<b>Net carrying amount</b>		
31 December	<u><b>164,702</b></u>	<u>201,725</u>

\* For identification purpose only

In 2018 and 2017, the Group identified (1) a group of subsidiaries engaged in the provision of QR codes on product packaging and solutions and 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 as two cash generating units (“CGUs”) as they generate largely independent cash inflows.

In 2017, the goodwill has been allocated to two CGUs separately: (1) Apex Group; and (2) Sigmatrix.

In 2018, as a result of the reorganisation and integration of operation and management of Apex Group and Sigmatrix, goodwill has been allocated to a group of CGUs that comprise the Apex Group and Sigmatrix (the “QR Code CGUs”). The QR Code CGUs that comprise the Apex Group and Sigmatrix represented the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in note 3.

### **For the year ended 31 December 2018**

#### **Group of CGUs that comprise Apex Group and Sigmatrix**

As at 31 December 2018, the aggregated recoverable amount of the group of QR Code CGUs 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 group of QR Code CGUs’ cash flow beyond the five-year period is extrapolated using 3% growth rate for group of QR Code CGUs.

The growth rate used does not exceed the long-term average growth rates for the businesses in which the group of QR Code CGUs operate. The pre-tax discount rate used of 15.79% 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 inflow/outflows which include budgeted sales and gross margin, such estimation is based on the units’ past performance and management’s expectations for 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 group of QR Code CGUs to exceed its recoverable amount further by approximately HK\$51,369,000 and HK\$14,620,000 respectively.

As at 31 December 2018, the aggregated recoverable amount of the group of QR Code CGUs was calculated based on value in use method amounted to HK\$164,702,000, that is lower than the carrying value of the net assets of the group of QR Code CGUs and the goodwill allocated to the group of QR Code CGUs. Accordingly, an impairment loss on goodwill of HK\$37,023,000 was recognised in profit or loss for the year ended 31 December 2018.

### **For the year ended 31 December 2017**

#### **(i) CGU of Apex Group**

As at 31 December 2017, 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 18.66% 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 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 was recognised in profit or loss for the year ended 31 December 2017.

**(ii) CGU of Sigmatrix**

As at 31 December 2017, 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.

**12. INTERESTS IN A JOINT VENTURE/AN ASSOCIATE**

The amount represented the 31.38% equity interest in FreeOpt Holdings Limited (“FreeOpt”). It was reclassified from interest in a joint venture to interest in an associate as a result of joint venture termination agreement entered into between an indirect wholly owned subsidiary of the Company and other investors of FreeOpt. Thereafter, the shareholders of FreeOpt exercise their voting rights in the shareholder meeting, which is the highest decision-making body of FreeOpt, in proportion to their shareholdings. Therefore, the interest in FreeOpt was classified as an associate upon the completion of joint venture termination agreement on 4 October 2018, as in the opinion of the Directors of the Company, the Group has significant influence over FreeOpt.

**13. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2018</b>	2017
	<b>HK\$’000</b>	HK\$’000
Unlisted equity investments, at cost		
Company A	–	67,397
Company B	–	11,329
Win Wind Capital Limited (“Win Wind”)	–	279,297
Company C	–	53,217
	<u>–</u>	<u>411,240</u>
	<u>–</u>	<u>411,240</u>

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

#### 14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>31 December 2018 HK\$'000</b>	1 January 2018 HK\$'000	31 December 2017 HK\$'000
<b>Non-current assets</b>			
Unlisted equity investments, at fair value (note (i))			
Win Wind (notes (ii) and (iii))	–	279,297	–
Company A (notes (ii) and (iv))	<b>130,812</b>	76,911	–
Company B (note (ii))	<b>23,293</b>	11,329	–
Company C (note (ii))	<b>34,521</b>	53,217	–
Company D (note (v))	<b>54,383</b>	–	–
	<u><b>243,009</b></u>	<u>420,754</u>	<u>–</u>
<b>Current assets</b>			
Listed equity investments held for trading, at fair value (note (vi))	<u><b>24,250</b></u>	<u>14,250</u>	<u>14,250</u>

*Notes:*

- (i) The unlisted equity investments relate to investments in five private entities, which were intended to hold for long-term strategic purpose at the time of acquisition. The five private entities are engaged in the provision of advisory and financial services, property holding, investment in securities trading and money lending.
- (ii) 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(b)(i). The fair value of these investments as at 1 January 2018 were estimated by management based on the recent market transactions.
- (iii) On 25 January 2018, the Group entered into a conditional agreement to dispose of 11.78% interest in 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 note 16.
- (iv) During the year ended 31 December 2018, the Group subscribed for additional equity interest in Company A at a consideration of HK\$55,200,000. As at 31 December 2018, the Group held approximately 3.46% (2017: 2.69%) of the issued share capital of Company A.
- (v) On 1 August 2018, the Group subscribed for new shares allotted by Company D that represented approximately 13.13% of the enlarged share capital of Company D at a consideration of HK\$65,000,000 settled by cash.
- (vi) The above financial assets at 31 December 2018 and 31 December 2017 were classified as held for trading and were, upon initial recognition, classified by the Group as financial assets at fair value through profit or loss.

## 15. TRADE AND BILLS RECEIVABLES

	<b>31 December 2018 HK\$'000</b>	1 January 2018 HK\$'000	31 December 2017 HK\$'000
Trade and bills receivables	<b>63,145</b>	70,053	75,251
Impairment loss allowance	<b>(1,341)</b>	–	–
	<b><u>61,804</u></b>	<u>70,053</u>	<u>75,251</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 90 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:

	<b>2018 HK\$'000</b>	2017 HK\$'000
Within 1 month	<b>30,929</b>	34,125
1 to 2 months	<b>16,463</b>	25,755
2 to 3 months	<b>7,067</b>	4,624
Over 3 months	<b>7,345</b>	10,747
	<b><u>61,804</u></b>	<u>75,251</u>

## 16. NOTE RECEIVABLE

During the year ended 31 December 2018, the Group disposed of the entire 11.78% equity interest of Win Wind, which was satisfied by a promissory note issued by 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).

The principal amount of the promissory note was HK\$320,000,000 and the fair value of the promissory note at initial recognition was approximately HK\$285,154,000. The promissory note bears zero coupon rate with maturity date of 30 June 2019. The Company ceased to hold any equity interest in Win Wind upon completion of disposal on 24 July 2018. The difference of the fair value of the promissory note received as consideration and the carrying amount of Win Wind amounting to HK\$5,857,000 has been included in net fair value loss on financial assets at FVTPL. The promissory note was measured at amortised cost with an effective interest rate of 13%. During the year, the Purchaser early repaid promissory note amounting to HK\$120,000,000. As at 31 December 2018, the carrying amount of the promissory note was approximately HK\$188,440,000 (2017: Nil).

## 17. TRADE PAYABLES

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 1 month	24,698	29,078
1 to 2 months	9,442	13,054
2 to 3 months	3,908	3,030
Over 3 months	4,073	2,633
	<u>42,121</u>	<u>47,795</u>

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

## 18. CONVERTIBLE BOND

On 3 October 2017, the Company and China Huarong International Holdings Limited (the “CB Holder”) 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 ended 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 netting off the issuance cost of HK\$2,561,000.

On initial recognition, the CB contains two components, debt component and derivative (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.

On 31 August 2018, the Company redeemed US\$13.0 million in principal amount of the CB at the Redemption Amount of approximately US\$13.6 million together with the relevant interest up to 31 August 2018 of approximately US\$0.3 million in accordance with the terms of the CB. Upon completion of the redemption, the outstanding principal amount of the CB is US\$27.0 million (approximately HK\$210,600,000).

During the year, the Group failed to comply with certain financial covenants of the CB Agreement. As a result of such breach of the financial covenants, the CB Holder has the rights to serve written notice to the Company requesting immediate repayment of the CB within 3 months from the date of the notice served. Hence, the CB in principal amount of US\$27,000,000 (approximately HK\$210,600,000) at the Redemption Amount of HK\$219,461,000 has been classified as a current liability as at 31 December 2018. In addition, the derivative component of the CB included conversion, early redemption and put options as a result of the breach of financial covenants as at 31 December 2018.

The movement of the components of the CB for the years ended 31 December 2018 and 2017 is set out below:

	2018			2017		
	Debt component HK\$'000	Derivative component HK\$'000	Total HK\$'000	Debt component HK\$'000	Derivative component HK\$'000	Total HK\$'000
At 1 January	298,558	1,827	300,385	-	-	-
Issuance of the convertible bond	-	-	-	295,658	16,342	312,000
Issue cost	-	-	-	(2,561)	-	(2,561)
Finance cost-interest charge	35,546	-	35,546	5,461	-	5,461
Finance cost-interest paid	(18,291)	-	(18,291)	-	-	-
Early redemption (including payment interest accrued)	(105,836)	-	(105,836)	-	-	-
Finance cost-accelerated interest due to breach of financial covenants	5,641	-	5,641	-	-	-
Loss on partial redemption of CB	3,843	-	3,843	-	-	-
Change in fair value	-	1,313	1,313	-	(14,515)	(14,515)
Carrying amount at the end of the year	<u>219,461</u>	<u>3,140</u>	<u>222,601</u>	<u>298,558</u>	<u>1,827</u>	<u>300,385</u>
Classified as:						
Current liability	219,461	3,140		-	1,827	
Non-current liability	-	-		298,558	-	
	<u>219,461</u>	<u>3,140</u>		<u>298,558</u>	<u>1,827</u>	

## 19. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2018 and 2017, the Group has obligations under finance lease as follows:

	2018		2017	
	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	-	-	1,536	1,649
More than one year but not exceeding two years	-	-	805	825
	<u>-</u>	<u>-</u>	<u>2,341</u>	<u>2,474</u>
Less: future finance charge		-		(133)
Present value of lease obligations		<u>-</u>		<u>2,341</u>

During the year, the finance lease agreements were terminated pursuant to the termination agreements entered into by the Group and the lessor.

## 20. 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	Lapsed during the year	Number of options outstanding at 31 December 2018
25/01/2017	0.335	02/07/2018 to 01/07/2022	-	29,925,000	(5,897,500)	24,027,500	(2,425,000)	21,602,500
25/01/2017	0.335	02/07/2019 to 01/07/2022	-	29,925,000	(5,897,500)	24,027,500	(2,425,000)	21,602,500
25/01/2017	0.335	02/07/2020 to 01/07/2022	-	29,925,000	(5,897,500)	24,027,500	(2,425,000)	21,602,500
25/01/2017	0.335	02/07/2021 to 01/07/2022	-	29,925,000	(5,897,500)	24,027,500	(2,425,000)	21,602,500
			-	119,700,000	(23,590,000)	96,110,000	(9,700,000)	86,410,000

The above options were vested on 2 July 2018. As at 31 December 2018, 21,602,500 share options were exercisable (2017: Nil).

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	Lapsed during the year	Number of options outstanding at 31 December 2018
12/12/2017	0.335	10/06/2019 to 09/06/2023	-	24,437,500	(25,000)	24,412,500	(675,000)	23,737,500
12/12/2017	0.335	10/06/2020 to 09/06/2023	-	24,437,500	(25,000)	24,412,500	(675,000)	23,737,500
12/12/2017	0.335	10/06/2021 to 09/06/2023	-	24,437,500	(25,000)	24,412,500	(675,000)	23,737,500
12/12/2017	0.335	10/06/2022 to 09/06/2023	-	24,437,500	(25,000)	24,412,500	(675,000)	23,737,500
			-	97,750,000	(100,000)	97,650,000	(2,700,000)	94,950,000
			-	97,750,000	(100,000)	97,650,000	(2,700,000)	94,950,000

The above options will be vested on 10 June 2019.

Included in 97,750,000 share options were 20,500,000 share options granted to the Directors of the Company on 12 December 2017.

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 2018, the Group recognised an expense of HK\$15,870,000 (2017: 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.

\* For identification purpose only

## **21. EVENTS AFTER REPORTING PERIOD**

On 21 February 2019, the Company granted share options under the Scheme to certain eligible participants to subscribe for a total of 504,000,000 ordinary shares of HK\$0.01 each in the capital of the Company at an exercise price of HK\$0.12 per share. The share options will be vested to the grantees on 21 February 2020 and are exercisable for a period of 4 years from 21 February 2020. Details are set out in the Company's announcement dated 21 February 2019.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

For the year ended 31 December 2018, the Group recorded revenue of approximately HK\$350.1 million (2017: HK\$397.9 million), representing a decrease of approximately 12% as compared to the last year. The decrease in turnover was primarily attributable to the decrease in revenue from packaging products business, which was due to the contraction of sales orders in 2018.

The loss for the year ended 31 December 2018 was HK\$253.9 million (2017: HK\$253.2 million), represents a slightly increase of 0.28% as compared to financial year 2017.

Revenue from QR code business was HK\$73.4 million (2017: HK\$78.8 million) and its segment loss was HK\$195.7 million (2017: HK\$157.7 million) during the year ended 31 December 2018. The segment loss of QR code business for the year ended 31 December 2018 was also increased by 24.1% when compared with last year, it was primarily attributable to the increase in impairment loss on property, plant and equipment and increase in operating cost.

The packaging products business reported in a revenue of HK\$276.2 million for the year ended 31 December 2018 (2017: HK\$318.7 million), representing a decrease of 13.3% as compared with last year. The decrease of revenue was largely due to the contraction of sales orders during 2018. A segment profit of HK\$8.4 million was recorded during the year ended 31 December 2018 (2017: HK\$25.9 million), representing a decrease of 67.6% as compared with last year and such decrease in segment profit was due to the increase in operating cost.

During the year, the Group recorded fair value loss of HK\$1.3 million on financial assets at fair value through profit or loss held for trading, representing a decrease of 98.4% as compared to the last year amounted to HK\$80.2 million. Such decrease was mainly attributable to significant amount of investments was disposed of during 2017. Fair value loss of financial assets at fair value through profit or loss not held for trading amounting to HK\$12.8 million was recognised during the year ended 31 December 2018 (2017: an impairment loss of available-for-sale investments amounted to HK\$72.2 million), it is largely due to the asset value of the Group's available-for-sale investments maintained stable during the year.

### **PROSPECTS**

In 2018, the Group is continuously 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 2018, the Group had outstanding HK\$219.5 million (2017: HK\$298.6 million) secured convertible bond, bears interest of 7% per annum and repayable in 2019. As at 31 December 2018, the Group had cash balances amounting to HK\$97.5 million (2017: HK\$348.7 million). The gearing ratio (net borrowings to shareholders' equity) was 0.17 (2017: 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.

On 31 August 2018, the Company redeemed US\$13.0 million in principal amount of the CB at the Redemption Amount of approximately US\$13.6 million together with the relevant interest up to 31 August 2018 of approximately US\$0.3 million in accordance with the terms of the CB. Upon completion of the redemption, the outstanding principal amount of the CB is US\$27.0 million (approximately HK\$210,600,000).

During the year, the Group failed to comply with certain financial covenants of the CB Agreement. As a result of such breach of the financial covenants, the CB Holder has the rights to serve written notice to the Company requesting immediate repayment of the CB within 3 months from the date of the notice served. Hence, the CB in principal amount of US\$27,000,000 (approximately HK\$210,600,000) at the Redemption Amount of HK\$219,461,000 has been classified as a current liability as at 31 December 2018. In addition, the derivative component of the CB included conversion, early redemption and put options as a result of the breach of financial covenants as at 31 December 2018.

Details of the CB were set out in note 18.

## CAPITAL COMMITMENTS

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

	<b>31 December 2018 HK\$'000</b>	31 December 2017 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	<u><b>300</b></u>	<u>13,871</u>

## PLEDGE OF ASSETS

As at 31 December 2018 and 2017, the Group's equity interest in Apex Capital Business Limited and its subsidiaries were pledged to secure the HK\$219.5 million convertible bond (2017: HK\$298.6 million).

## CONTINGENT LIABILITIES

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

## FINANCE LEASE OBLIGATIONS

As at 31 December 2018, the Group has no outstanding obligations under finance lease (2017: HK\$2.3 million).

## EMPLOYEES

As at 31 December 2018, the Group employed approximately 876 employees (2017: 972) 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.

## FOREIGN EXCHANGE RISK

The Group's revenues were mainly denominated in US dollars and 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 as at 31 December 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 and 3 October 2017, and 31 August 2018, 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.

<b>Intended use of proceeds</b>	<b>Actual use of proceeds</b>
(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. The Company early redeemed US\$13 million (equivalents to HK\$101.4 million) in principal amount of the CB in August 2018. Therefore, the net proceeds of HK\$203.3 million were intended to use as follows:

(a) An amount of HK\$172.5 million were used for expansion and development of QR codes business;

(b) An amount of HK\$30.8 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 and expected to be utilised in 2019 and applied for the same purpose as disclosed in the Announcement.

An amount of HK\$110.1 million was utilised for the expansion and development of QR codes business and HK\$62.4 million has not been utilised. The unutilised amount is expected to be utilised in 2019 and applied for the same purposes as disclosed in the Announcements.

An amount of HK\$30.8 million was fully utilised for general working capital of corporate office.

## SIGNIFICANT INVESTMENT HELD

As at 31 December 2018, the Group held listed and unlisted equity investments of approximately HK\$24.3 million and HK\$391.9 million respectively, details of which were set out as follows:

Nature of investments	Number of	Percentage of	Fair value	Fair value/		Percentage to	Investment
	shares held	shareholding	change	carrying amount		the Group's	
	as at	as at	for year	as at	as at	net assets	cost
	31 December	31 December	ended	31 December	31 December	as at	
	2018	2018	2018	2018	2017	2018	
		%	HK\$'000	HK\$'000	HK\$'000	%	HK\$'000
<b>Financial assets at fair value through profit or loss</b>							
<i>Unlisted Equity Investments</i>							
Freewill Holdings Limited ("Freewill")	14,550,000	2.95	11,964	23,293	11,329	3.20	80,025
Co-Lead Holdings Limited ("Co-Lead")	363	3.46	(1,299)	130,812	67,397	17.99	145,200
Satinu Resources Group Limited ("Satinu")	9,108,328	0.88	(18,696)	34,521	53,217	4.75	53,217
Simagi Finance Company Limited ("Simagi")	13,000,000	13.13	(10,617)	54,383	–	7.48	65,000
			<u>(18,648)</u>	<u>243,009</u>	<u>131,943</u>	<u>33.42</u>	<u>343,442</u>
<b>Interests in a joint venture/an associate</b>							
<i>Unlisted Equity Investments</i>							
FreeOpt Holdings Limited ("FreeOpt")	1,500,000	31.38	7,295	148,844	141,549	20.47	150,000

The interest in FreeOpt was re-classified from interest in a joint venture to interest in an associate during the year ended 31 December 2018. Details of these are set out in note 12.

Nature of investments	Number of shares held as at 31 December 2018	Percentage of shareholding as at 31 December 2018 %	Unrealised	Dividends	Fair value		Percentage to	Investment cost
			loss on fair value change for year ended 31 December 2018 HK\$'000	received for year ended 31 December 2018 HK\$'000	as at 31 December 2018 HK\$'000	as at 31 December 2017 HK\$'000	the Group's net assets as at 31 December 2018 %	
<b>Financial assets at fair value through profit or loss</b>								
<i>Listed Equity Investments</i>								
Enerchina Holdings Limited (622) ("Enerchina")	50,000,000	0.86	(1,307)	447	24,250	14,250	3.33	47,668

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.

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

Simagi is principally engaged in the money lending businesses.

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

Enerchina is principally engaged in investment holdings, trading and investment in securities, and the provisions of (i) securities brokerage services, (ii) placing and underwriting services, (iii) corporate financial advisory services, (iv) money lending services, (v) investment advisory and asset management services, and (vi) margin financing services.

## **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 from code provision E.1.2. and A.6.7 of the CG Code:

- (i) One non-executive Director and one independent non-executive Director did not attend the annual general meeting of the Company held on 1 June 2018 (the “2018 AGM”) as they had another 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.
- (ii) The Chairman of the Board, one executive director, one non-executive director and one independent non-executive director did not attend the special general meeting held on 23 July 2018 (“2018 SGM”). The Company considers that the members of the Board who attended the 2018 SGM were able to answer questions from shareholders of 2018 SGM.

## **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 2018 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 2018.

## **PUBLICATION OF 2018 ANNUAL RESULTS AND ANNUAL REPORT**

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.chinatouyun.com.hk](http://www.chinatouyun.com.hk). The 2018 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, 27 March 2019

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