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

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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 HM 08
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

CHAIRMAN'S STATEMENT

To our shareholders,

On behalf of the board of directors of China Touyun Tech Group Limited and its subsidiaries (collectively the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2018.

BUSINESS 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 of the Group, which was due to the contraction of sales orders during 2018.

During the year under review, the Group recorded the loss for the year of HK$253.9 million (2017: HK$253.2 million) for the financial year 2018, represent a slightly increase of 0.28% as compared to financial year 2017.

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.

APPRECIATION

I would like to express, on behalf of the board of directors of the Company, my sincere appreciation to the management and all staff for their dedication and valuable contributions. I also wish to thank all of our fellow directors for their valuable contribution and shareholders and valued partners for their generous support. We are looking forward to overcoming the challenges with their combined efforts and achieving the Group's success in the future.

Wang Liang
Chairman

Hong Kong, 27 March 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 during 2018.

The loss for the year ended 31 December 2018 was HK$253.9 million (2017: HK$253.2 million) for the financial year 2018, 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 increased by 24.1% when compared with last year, it was primarily attributable to the increase in operating cost and impairment loss on property, plant and equipment.

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, 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 on 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 2018.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL 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 the 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"), 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 anit-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.

Details of the CB as set out in note 29 to the consolidated financial statements.

CAPITAL COMMITMENTS

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

	31 December 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	**300**	13,871

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 (2017: HK$298.6 million) convertible bond.

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).

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.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 31 December 2018, the Group employed approximately 876 employees in Hong Kong and Mainland China (2017: 972). 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.

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, 3 October 2017, 10 November 2017 and 31 August 2018, 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.

	Intended use of proceeds	Actual use of proceeds
(1)	The Company raised HK$406.1 million net proceeds from the placing of shares in November 2016 and the net proceeds were intended to use as follow:	
	(a) An amount of HK$263.4 million was used for the redemption of the Promissory Note.	An amount of HK$263.4 million was utilised for the full redemption of the Promissory Note in the principal amount of HK$258 million and payment of accrued interest.
	(b) An amount of HK$142.7 million is for the expansion and development of its QR 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.

* For identification purposes only

Intended use of proceeds	Actual 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 code business (the "Research & Development"); and	(iii) An amount of HK$58.7 million was fully utilised in the Research & Development.
(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").	(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 2019 and applied for the same purpose as disclosed in the Announcements.
(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 (equivalent 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 code business; and	An amount of HK$110.1 million was utilised for the expansion and development of QR code 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.
(b) An amount of HK$30.8 million were used for general working capital of corporate office.	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 shares held as at 31 December 2018	Percentage of shareholding as at 31 December 2018 %	Fair value change for year ended 31 December 2018 HK$'000	Fair value/carrying amount as at 31 December 2018 HK$'000	Fair value/carrying amount as at 31 December 2017 HK$'000	Percentage to the Group's net assets as at 31 December 2018 %	Investment cost HK$'000
Financial assets at fair value through profit or loss							
Unlisted equity investments							
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
			(18,648)	243,009	131,943	33.42	343,442

Nature of investments	Number of shares held as at 31 December 2018	Percentage of shareholding as at 31 December 2018 %	Share of profit for year ended 31 December 2018 HK$'000	Carrying amount as at 31 December 2018 HK$'000	Carrying amount as at 31 December 2017 HK$'000	Percentage to the Group's net assets as at 31 December 2018 %	Investment cost HK$'000
Interest in a joint venture/an associate							
Unlisted equity investments							
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 17.

Nature of investments	Number of shares held as at 31 December 2018	Percentage of shareholding as at 31 December 2018 %	Unrealised loss on fair value change for year ended 31 December 2018 HK$'000	Dividends received for year ended 31 December 2018 HK$'000	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Percentage to the Group's net assets as at 31 December 2018 %	Investment cost HK$'000
Financial assets at fair value through profit or loss								
Listed equity investments								
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.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. WANG Liang, aged 33, has been appointed as an Executive Director of the Company since 1 September 2016 and the Chairman of the Board since 23 January 2017. He is the Chairman of the Nomination Committee and a member of the Executive Committee and the Remuneration Committee. He also serves as a Director of several subsidiaries of the Company. As Chairman, Mr. Wang is mainly responsible for leading the Board and managing its work to ensure that the Board effectively operates and fully discharges its responsibilities. In addition, he is also in charge of the business of provision of QR codes on product packaging and related business intelligence IT solutions. Mr. Wang holds a bachelor's degree in physics from Imperial College of Science, Technology and Medicine, University of London and a master's degree in international finance from The University of Westminster. He has extensive experience in the international finance and project management. He had been working in international investment banks and responsible for clients' project management, projects merger and acquisition and various initial public offerings. Mr. Wang was formerly an Executive Director (from January 2014 to February 2016), a Chairman (from August 2014 to February 2016), a Non-executive Director (from February 2016 to August 2016) and a Vice-chairman (from February 2016 to August 2016) of Life Healthcare Group Limited (formerly known as Tack Fiori International Group Limited) (stock code: 928). He was also an Executive Director of China Ever Grand Financial Leasing Group Co., Ltd. (formerly known as PME Group Limited) (stock code: 379) from December 2012 to December 2014. The shares of the above companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. DU Dong, aged 33, has been appointed as an Executive Director of the Company since 15 December 2016 .He is a member of the Executive Committee, the Nomination Committee and the Remuneration Committee. He also serves as a Director of several subsidiaries of the Company. Mr. Du is responsible for the daily management of the Group, recommending strategies to the Board, and determining and implementing operational decision. He holds a bachelor's degree of Science (Honors) in Computing Studies (Information Systems) from Hong Kong Baptist University. Mr. Du has extensive experience in investment, capital market, financing, merger and acquisitions of different projects with various investment banks and professional parties. He had been working in listed companies and responsible for investment, financing, projects merger and acquisition, covering coal mining, iron mining and gold mining, terminal and logistic services industry, education industry, financing lease industry and internet industry, etc. Mr. Du has a strong network in the capital market of Hong Kong and the PRC. He has been serving as a Vice President of China Ever Grand Financial Leasing Group Co., Ltd (formerly known as PME Group Limited) (stock code: 379) since November 2013. He was an Assistant to CEO of Theme International Holdings Limited (stock code: 990) from July 2010 to November 2013. The shares of these companies are listed on the Stock Exchange.

Mr. LO Yuen Wa Peter, aged 57, has been appointed as an Executive Director of the Company since 27 May 2015. He is a member of the Executive Committee and also serves as a Director of several subsidiaries of the Company. He is responsible for overseeing the corporate finance and management of the Group. Mr. Lo graduated from the University of Liverpool and obtained his professional qualification in Accountancy in the United Kingdom. He is a member of the Institute of Chartered Accountants in England and Wales. He has 30 years of experience in auditing, accounting, investment, financial and corporate management. Mr. Lo was an Executive Director of HengTen Networks Group Limited (formerly known as Mascotte Holdings Limited) (stock code: 136) from July 2008 to March 2014 and an Executive Director, Managing Director and Acting Chairman of Rentian Technology Holdings Limited (formerly known as Forefront Group Limited) (stock code: 885) from April 2014 to April 2015. The shares of these companies are listed on the Stock Exchange.

NON-EXECUTIVE DIRECTOR

Mr. CHEN Hui, aged 55, has been appointed as a Non-executive Director of the Company since 15 December 2016. He is also a member of the Nomination Committee. Mr. Chen has over 16 years solid experience in information technology. He is an expert in software and hardware engineering, automation and control, and possesses extensive knowledge in Internet of Thing and various sensors. He has been involved in development and application of nearly 40 patents. Mr. Chen has been appointed as a President of 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co. Ltd.*) (formerly known as 上海質尊物聯網科技有限公司), an indirect wholly-owned subsidiary of the Company, since 2011. He was a General Manager of 質尊溯源電子科技有限公司 from 2009 to 2011, a General Manager of 上海質尊電子科技有限公司 from 2004 to 2009, and a Legal Representative of 上海華暉自控設備有限公司 from 2000 to 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEUNG Wing Ping, aged 52, has been appointed as an Independent Non-executive Director of the Company since 11 August 2015. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. He holds a bachelor's degree in accountancy with honours from City University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over 20 years of experience in auditing and accounting fields. He was formerly an Executive Director of Eagle Ride Investment Holdings Limited (formerly known as Radford Capital Investment Limited) (stock code: 901) from June 2011 to November 2013, an Independent Non-executive Director of Mason Financial Holdings Limited ("Mason", formerly known as Willie International Holdings Limited) (stock code: 273) from October 2009 to June 2013 and re-designated as an Executive Director of Mason from July 2013 to September 2016. He is currently an Independent Non-executive Director of Freeman Fintech Corporation Limited (stock code: 279), Enerchina Holdings Limited (stock code: 622) and China Shandong Hi-Speed Financial Group Limited (formerly known as China Innovative Finance Group Limited) (stock code: 412). The shares of these companies are listed on the Stock Exchange.

Mr. HA Kee Choy Eugene, aged 62, has been appointed as an Independent Non-executive Director of the Company since 26 November 2014. He is also the Chairman of the Audit Committee, a member of the Nomination Committee and the Remuneration Committee. Mr. Ha holds a master's degree in business administration and is a fellow member of the Association of Chartered Certified Accountants. He has over 20 years of experience in the finance and banking industry and acts or/and acted as director of a number of private and listed companies in Hong Kong. He is the director of a certified public accountants corporate practice in Hong Kong. He is currently an Independent Non-executive Director of Longhui International Holdings Limited (stock code: 1007) and International Entertainment Corporation (stock code:1009). The shares of these companies are listed on the Main Board of the Stock Exchange.

Mr. TO Shing Chuen, aged 68, has been appointed as an Independent Non-executive Director of the Company since 26 November 2014. He is also the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee. Mr. To holds a bachelor's degree in arts and has over 20 years of experience in trading, garment and leather field. He enjoys excellent relationship with Mainland China companies. He is currently an Independent Non-executive Director of China Innovative Finance Group Limited (formerly known as Heritage International Holdings Limited) (stock code: 412).

* *For identification purpose only*

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of corporate management services. The Group is principally engaged in the (i) provision of QR codes on product packaging and solutions and online advertising display services; (ii) the manufacture and sale of packaging products; and (iii) investments and trading in securities and money lending. Details of the principal activities of the Company's subsidiaries are set out in note 45 to the financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and the Management Discussion and Analysis of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the Corporate Governance Report. Also, the financial risk management objectives and policies of the Group can be found in note 42 to the financial statements. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2018 are provided in note 44 to the financial statements. In addition, discussions on the Group's environmental policies, compliance with relevant laws and regulations and relationship with its key stakeholders which have a significant impact on the Group are also contained in the Corporate Governance Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Company and of the Group as at 31 December 2018 are set out in the financial statements on pages 60 to 159.

The directors do not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 160. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 32 to the financial statements.

CONVERTIBLE BOND

Details of the convertible bond during the year are set out note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no pre-emptive rights provision in the Companies Act 1981 of Bermuda (as amended from time to time) or in the Company's Bye-laws.

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.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company had no reserve available for distribution to shareholders as calculated in accordance with the Companies Act 1981 of Bermuda (as amended from time to time). The Company's share premium account in the amount of HK$1,769,428,000 may be distributed in the form of fully paid bonus share.

DIVIDEND POLICY

In considering the payment of dividends, the Board shall maintain adequate cash reserves for meeting its working capital requirements and strike a proper balance between future business growth and rewarding the Shareholders of the Company.

Provided that the daily working capital needs of the Group can be satisfied and funding has been reserved for future development, the Company intends to maintain a relatively stable dividend distribution ratio. However, the Company's dividend distribution record in the past does not necessarily imply that the same level of dividends may be declared or paid by the Company in the future.

In proposing any dividend payout, the Board shall take into account the financial performance and cash flow situation of the Group, future expansion plans and capital requirements, interests of Shareholders, contractual restrictions on payment of dividends, taxation considerations, statutory and regulatory restrictions, general economic conditions, business cycle of the Group's business and any other factors that the Board may consider relevant.

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Company's Memorandum and Articles of Association.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted in the aggregate for 45.1% of total revenue for the year and sales to the largest customer included therein amounted to 13%. Purchases from the Group's five largest suppliers accounted in the aggregate for 63% of the total purchases for the year and purchases from the largest supplier included therein amounted to 30.5%.

None of the directors, their close associates or shareholders, who to the knowledge of the directors own more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers or suppliers.

DIRECTORS' REPORT

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

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

In accordance with Bye-law 84(1) of the Company's Bye-laws, Mr. Wang Liang, Mr. Du Dong and Mr. Chen Hui will retire by rotation and, being eligible, will offer themselves for re-election at the AGM.

The Company has received from each of the Independent Non-executive Directors, Mr. Cheung Wing Ping, Mr. Ha Kee Choy Eugene and Mr. To Shing Chuen, the written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Board has reviewed their independence based on such confirmations and considers all of them to remain independent during their term of office.

DIRECTORS' BIOGRAPHIES

Biographical details of the existing directors of the Company are set out under the section headed "Directors' Profile".

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the AGM has a service contract with any company in the Group which is not terminable by such company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Except for those disclosed in section headed Continuing Connected Transactions, no transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REMUNERATION DETAILS

Details of the directors' remuneration and the five highest paid employees' remuneration in the Group are set out in notes 9 and 10 to the financial statements respectively.

REMUNERATION POLICY

The remuneration policy for employees of the Group is formulated based on the merit, qualifications and competence of individual employee which are reviewed regularly in order to provide compensation packages at market rates sufficient to reward successful performance and attract, retain and motivate employees. The Company has adopted a share option scheme as a long-term incentive to eligible employees and directors, details of which are set out in note 34 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 31 December 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 corporation (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, were as follows:

Interests in shares of the Company (long positions)

Name of directors	Capacity in which interests are held	Number of shares held	Approximate percentage
Mr. Wang Liang (Note 1)	Beneficial owner	2,246,000,000	22.92
Mr. Du Dong (Note 2)	Beneficial owner	5,000,000	0.05
Mr. Lo Yuen Wa Peter (Note 2)	Beneficial owner	1,500,000	0.02
Mr. Chen Hui (Note 2)	Beneficial owner	5,000,000	0.05
Mr. Cheung Wing Ping (Note 2)	Beneficial owner	1,000,000	0.01
Mr. Ha Kee Choy Eugene (Note 2)	Beneficial owner	1,000,000	0.01
Mr. To Shing Chuen (Note 2)	Beneficial owner	1,000,000	0.01

Notes:

1. The 2,246,000,000 shares included 6,000,000 share options granted to Mr. Wang Liang under the share option scheme of the Company on 12 December 2017, which will be vested on 10 June 2019. 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 2,846,000,000 shares, representing approximately 29.05% of the issued shares of the Company.

2. The interest held by these directors represents the share options granted to the Directors under the share option scheme of the Company on 12 December 2017 and will be vested on 10 June 2019.

Save as disclosed above, as at 31 December 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 corporation (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 (the "Scheme") on 18 May 2012, details of which were disclosed in the note 34 to the financial statements.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 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 (Note 1)	Beneficial owner	2,246,000,000	22.92
Ms. Qiao Yanfeng (Note 2)	Interest in controlled corporations	600,000,000	6.12
Mr. Qin Fen	Beneficial owner	789,880,000	8.06
China Huarong International Holdings Limited (Note 3)	Beneficial owner	425,579,268	4.16

Notes:

1. The 2,246,000,000 shares included 6,000,000 share options granted to Mr. Wang Liang under the share option scheme of the Company on 12 December 2017, which will be vested on 10 June 2019.

2. 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).

3. The 425,579,268 shares represented the new shares to be issued as if the US$27 million convertible bond were fully converted.

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any interests or short positions of any other 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.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, subject to the statues, every director of the Company shall be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

CONTINUING CONNECTED TRANSACTIONS

On 22 December 2017, 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co., Ltd.*)("SHTY"), a company established in the PRC with limited liability and is indirectly wholly-owned by the Company, entered into an agreement (the "Beverage Agreement") with 上海立足生物科技有限公司 (Shanghai Lizu Biotechnology Company Co., Ltd.*) (the "Supplier"), a company established in the PRC with limited liability in relation to the purchase of the health drink under the brand name of 天酶易暢, which is a dietary fibre drink targetted at improving the digestive systems of humans. The cap amount for the transaction from 22 December 2017 to 31 March 2018 was RMB10 million (equivalent to HK$12 million). During the year, SHTY purchased health drink products from the Supplier amounted to RMB0.6 million (equivalent to HK$0.65 million).

The Supplier is a company which is 75% beneficially owned by Mr. Wang Liang, who is a Director and a substantial shareholder of the Company. Hence, Mr. Wang Liang is a connected person of the Company. Therefore, the Beverage Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The aforesaid continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors have confirmed that the aforesaid continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged the auditor of the Company to report on the aforesaid continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed in writing to the Board that:

(a) nothing has come to its attention that causes it to believe that the aforesaid continuing connected transactions have not been approved by the Company's Board;

(b) nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(c) with respect to the aggregate amount of each of the aforesaid continuing connected transactions, nothing has come to its attention that causes it to believe that the aforesaid continuing connected transactions have exceeded the cap as set by the Company.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events which took place subsequent to the reporting period are set out in note 44 to the financial statements.

* *For identification purpose only*

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2018 and up to the date of this report as required under the Listing Rules.

INDEPENDENT AUDITORS

The financial statements have been audited by Moore Stephens CPA Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wang Liang
Chairman

Hong Kong, 27 March 2019

The Company is committed to maintaining a high standard of corporate governance. The board of directors of the Company (the "Board") considers that sound corporate management and governance practices are essential to the Company's healthy growth under all business environments.

CORPORATE GOVERNANCE PRACTICES

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 provisions 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 at 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.

BOARD OF DIRECTORS

During the year under review, the Board was chaired by Mr. Wang Liang. It consisted of 3 executive directors, one non-executive director and three independent non-executive directors. Names and other biographical details of the existing members of the Board are set out under the heading of "Directors' Profile". The Board assumes responsibility for the leadership and control of the Company and its members are collectively responsible for promoting the business of the Company by formulating the Group's overall strategies and policies, approving the business plans, evaluating the performance of the Group in pursuit of the Group's overall strategies and overseeing the management of the Group. The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The management of the Group is responsible for the day-to-day operations of the Group, and implementing the business strategies and plans formulated and approved by the Board.

All Directors have acted in good faith for the best interests of the Company and the stakeholders of the Company. Other than the statutory duties imposed on each of them, all of the Directors have exercised due care in monitoring the corporate matters of the Company and have provided grave concern, sufficient time and attention to all the significant issues and affairs of the Group.

Each of the independent non-executive Directors has made an annual confirmation to the Company concerning his or her independence pursuant to the Listing Rules. The Company considers that all the independent non-executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and are considered to be independent.

Set out below are details of directors' attendance of board meetings and general meeting in 2018:

Name of directors	Board meeting	General meeting
Executive Directors		
Wang Liang *(Chairman)*	3/4	1/2
Du Dong	4/4	1/2
Lo Yuen Wa Peter	4/4	2/2
Non-executive Director		
Chen Hui	3/4	0/2
Independent Non-executive Directors		
Cheung Wing Ping	4/4	2/2
Ha Kee Choy Eugene	3/4	1/2
To Shing Chuen	4/4	1/2

Save for regular Board meetings held during the year ended 31 December 2018, meetings of the Directors were held to discuss and transact other special businesses. The Board members are provided with appropriate and sufficient information in a timely manner to keep abreast of the Group's latest developments. All businesses transacted at the Board meetings are properly documented and recorded.

The Company provides directors with regular updates on changes to and developments of the Group's business, and on the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities to help them make informed decisions and discharge their duties and responsibilities as directors of the Company.

Mr. Wang Liang is the son of Ms. Qiao Yanfeng, the substantial shareholder of the Company. Ms. Qiao is deemed to be interested in 600,000,000 shares of the Company. Save as disclosed herein, there is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board.

During the year under review, all directors have participated in continuous professional development to develop and refresh their knowledge and skills as listed company directors. All directors have provided the Company with their records of the training they received for the year. A summary of the records of their training is as follows:

Name of directors	**Type of continuous professional development programmes**
Executive Directors	
Wang Liang *(Chairman)*	B
Du Dong	B
Lo Yuen Wa Peter	A and B
Non-executive Director	
Chen Hui	B
Independent Non-executive Directors	
Cheung Wing Ping	A and B
Ha Kee Choy Eugene	A and B
To Shing Chuen	A and B

Notes:

A attending face-to-face courses, seminars or conferences
B reading materials regarding updates on the Group's business and operation, finance, corporate governance or ethics and code of conduct

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to avoid power being concentrated with any one individual. The main responsibility of Chairman is to lead the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. The role of Chief Executive Officer has been performed collectively by all executive directors. The Board considers this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and the interest of the Shareholders of the Company as a whole.

NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has reviewed their independence based on such confirmation and considers all of them remaining independent.

All non-executive directors are appointed for a specific term of not more than three years and are subject to retirement by rotation and re-election at the annual general meeting at least once every three years pursuant to the Company's Bye-laws.

BOARD COMMITTEES

The Board has set up the Executive Committee which comprises all executive directors on the Board. Under its terms of reference, the Executive Committee is responsible for overseeing the management and daily operations of the Group and any other matters delegated by the Board. In addition to the Executive Committee, the Board has set up the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board does not have a Corporate Governance Committee and its functions would be carried out by the Board as a whole.

All committees of the Board have specific terms of reference clearly defining their respective powers and responsibilities. All committees are required by their terms of reference to report to the Board in relation to their decisions or recommendations. Through participating in the Company's board meetings and committees meetings, attending general meetings, and participating in continuous professional development, all directors are able to make contribution required from them to the Board and to the development of the Company.

AUDIT COMMITTEE

The Audit Committee currently comprised three independent non-executive directors, Mr. Cheung Wing Ping, Mr. Ha Kee Choy Eugene and Mr. To Shing Chuen and two of whom has the appropriate professional qualifications, or accounting or related financial management expertise. It is chaired by Mr. Ha Kee Choy Eugene. The principal responsibilities of the Audit Committee are to review the relationship with the auditors of the Company; review the financial information of the Group and oversee the Group's financial reporting system, internal control procedures and risk management system. The major roles and functions of the Audit Committee are set out in the terms of reference which include duties specified in the CG Code and are posted on the Company's website and on the Stock Exchange's website.

The Audit Committee held 2 meetings during the year ended 31 December 2018. Details of the attendance of the committee members are as follows:

Committee Members	**Attendance**
Mr. Ha Kee Choy Eugene	2/2
Mr. Cheung Wing Ping	2/2
Mr. To Shing Chuen	1/2

The major work performed by the Audit Committee during the year ended 31 December 2018 included, amongst other things, the following:

- reviewing the annual results of the Group for the financial year ended 31 December 2018 with the conclusion that the preparations of such results have been complied with the applicable accounting standards;

- reviewing the interim results of the Group for the six months ended 30 June 2018; and

- reviewing the effectiveness of the Group's internal control systems and procedures and risk management system.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprised two executive directors, Mr. Wang Liang and Mr. Du Dong, and three independent non-executive directors, Mr. Cheung Wing Ping, Mr. Ha Kee Choy Eugene and Mr. To Shing Chuen. It is chaired by Mr. To Shing Chuen. The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and members of the senior management of the Company and to determine the specific remuneration packages of all executive Directors and members of the senior management of the Company. The major roles and functions of the Remuneration Committee are set out in the terms of reference which include duties specified in the CG Code and are published on the Company's website and on the Stock Exchange's website.

The Remuneration Policy for executive directors of the Company is determined with reference to the Group's operating results, duties and level of responsibility of the executive directors and the prevailing market conditions which are reviewed annually in order to provide remuneration and compensation packages competitive to attract, retain and motivate high quality executives to serve the Group. The fee for non-executive directors is determined with reference to each of their duties and level of responsibility with the Company and is reviewed on an annual basis.

During 2018, the Remuneration Committee has assessed the performance of the executive directors, reviewed and discussed, among other matters, the remuneration packages of existing directors, the remuneration of the non-executive directors, the existing share option scheme and the retirement benefit scheme. It has also reviewed the Remuneration Policy and its implementation. Being given the delegated responsibility, the Remuneration Committee has also determined the remuneration packages of the executive directors of the Company.

The Remuneration Committee held 2 meetings during the year ended 31 December 2018. Details of the attendance of the committee members are as follows:

Committee Members	Attendance
Mr. Wang Liang	2/2
Mr. Du Dong	2/2
Mr. Ha Kee Choy Eugene	2/2
Mr. Cheung Wing Ping	2/2
Mr. To Shing Chuen	2/2

The remuneration of the Directors, being the senior management of the Company, by band for the year ended 31 December 2018 is set out below:

Remuneration band	Number of persons
Not more than HK$1,000,000	4
HK$1,000,001–HK$2,000,000	3

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 9 and 10 to the financial statements in this annual report, respectively.

NOMINATION COMMITTEE

The Nomination Committee currently comprised two executive directors, Mr. Wang Liang and Mr. Du Dong, a non-executive director, Mr. Chen Hui, and three independent non-executive directors, Mr. Cheung Wing Ping, Mr. Ha Kee Choy Eugene and Mr. To Shing Chuen. It is chaired by Mr. Wang Liang. The major roles and functions of the Nomination Committee are set out in the terms of reference which include duties specified in the CG Code and are posted on the Company's website and on the Stock Exchange's website.

The Nomination Policy for directors is formulated with reference to the skills and experience of the Board appropriate for the requirements of the Group's business. The Nomination Committee will review the Board's structure, size and composition (including the skills, knowledge and experience) and diversity. It will assess the independence of independent non-executive directors. It will also make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and make recommendations on the appointment or re-appointment of directors and succession planning for directors, including the Chairman as appropriate. It is responsible for identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships.

The Nomination Committee held 1 meeting during the year ended 31 December 2018. Details of the attendance of the committee members are as follows:

Committee Members	Attendance
Mr. Wang Liang	1/1
Mr. Du Dong	1/1
Mr. Chen Hui	1/1
Mr. Ha Kee Choy Eugene	1/1
Mr. Cheung Wing Ping	1/1
Mr. To Shing Chuen	1/1

The Company has adopted a Board Diversity Policy setting out the approach to achieve a diverse Board. Taking into account factors including the size of the Board, its composition of executive and non-executive directors, and the Company's principal activities and needs, selection of candidates shall be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Corporate Governance Policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its Corporate Governance Policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

During the year, members of the Board have reviewed and discussed, among other things, the Company's policies and practices on corporate governance at board meetings. They have also reviewed and monitored the training and continuous professional development of directors, and the Company's policies and practices on compliance with legal and regulatory requirements as well as its disclosure in the Corporate Governance Report. The Board has reviewed the code of conduct applicable to employees and directors setting out the standards of behaviour that the Company expects from them and the guidelines on how they should handle different situations in business dealings with the Group.

INDEPENDENT AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's independent auditors, Moore Stephens CPA Limited amounted to a total of HK$1.9 million, of which HK$1.4 million was for audit services and HK$0.5 million was for non-audit services including tax and consultancy services.

Furthermore, the remuneration paid/payable to the independent auditors of subsidiaries of the Company amounted to HK$16,500 for non-audit services including tax services.

COMPANY SECRETARY

The Company has changed it's Company Secretary on 18 April 2017 and she has undertaken not less than 15 hours of relevant professional training during 2018.

SHAREHOLDERS' RIGHTS

The following is a brief summary of certain rights of shareholders, which are subject to applicable laws and regulations, including without limitation, the Companies Act 1981 of Bermuda (as amended from time to time), the Listing Rules and the Company's Bye-laws.

1. Convening special general meeting

Members of the Company may, by a written requisition, require the directors of the Company to convene a special general meeting ("SGM") for the transaction of any business specified in such requisition. A valid requisition may be made by a member or members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which at that date carries the voting rights at general meetings of the Company. The requisition must state the purpose(s) of the requisitioned SGM, and must be signed by the requisitionist(s). The requisition may consist of several documents in like form each signed by one or more requisitionists, which must be deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. To ensure that it is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's principal place of business in Hong Kong at 12/F, Kwan Chart Tower, 6 Tonnochy Road, Wan Chai, Hong Kong, for the attention of the Board or the Company Secretary.

If the directors fail to proceed to convene an SGM within 21 days from the date of deposit of the requisition, the requisitionist(s) (or any of them representing more than one-half of their total voting rights) may himself/themselves convene an SGM, which must be held within 3 months of the date of deposit of the requisition. The SGM must be convened by the requisitionist(s) in the same manner as nearly as possible as that in which the SGM is to be convened by the directors. The requisitionist(s) is/are entitled to be repaid any reasonable expenses he/they incur(s) as a result of the failure of the directors duly to convene an SGM. These expenses will be payable by the Company and any sum so repaid shall be retained by the Company out of any sums due or to become due from the Company by way of fees or other remuneration to such defaulting directors in respect of their services.

2. Putting forward proposals at shareholders' meetings

Members of the Company may by a written requisition and at their expense (unless the Company otherwise resolves) require the Company to:

(a) give to members of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting of the Company; and/or

(b) circulate to members of the Company entitled to receive notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that general meeting.

A valid requisition may be made by either:

(a) any number of members of the Company representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition the right to vote at the meeting to which the requisition relates; or

(b) not less than 100 members of the Company.

The requisition signed by the requisitionists (or two or more copies which between them bear the signatures of all the requisitionists) must be deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. To ensure that it is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's principal place of business in Hong Kong at 12/F, Kwan Chart Tower, 6 Tonnochy Road, Wanchai, Hong Kong, for the attention of the Board or the Company Secretary and,

(a) in the case of a requisition requiring notice of a resolution to be moved at an annual general meeting, not less than 6 weeks before the annual general meeting; and

(b) in the case of any other requisition, not less than one week before the general meeting.

The requisitionists must deposit or tender with the requisition a sum which is reasonably sufficient to meet the Company's expenses in giving effect to the requisition.

3. Proposing a person for election as director

Shareholders may propose a person for election as director, the procedures for which are available on the Company's website in the section of "Corporate Governance" under the column of "Investor Relationship".

4. Sending enquiries to the Board

Shareholders may send any enquiries to the Board by mail, email or telephone to the Company Secretary, whose contact details are as follows:

Address:	12/F, Kwan Chart Tower, 6 Tonnochy Road, Wanchai, Hong Kong
Email:	chinatouyun@chinatouyun.com.hk
Telephone:	+852 2270 7202

INVESTOR RELATIONS

The Company has adopted a Shareholders Communication Policy. The use and effectiveness of such policy are monitored and reviewed regularly by the Board. The Company recognises the importance of shareholders' privacy and therefore will not disclose shareholders' information without their consent, unless required by law to do so. To achieve equal access to information on the Company's latest major developments, measures have been taken to ensure all necessary information and appropriate updates are made available to investors in a timely manner through the Company's website in the section of "Corporate Governance" under the column of "Investor Relationship". In addition to financial reports, all announcements and circulars of the Company including results announcements, notices of general meetings and associated explanatory documents released by the Company to the Stock Exchange are posted on the Company's website. Shareholders should direct their questions about their shareholdings to the Company's share registrars. For enquiries about the information of the Company, shareholders may contact the Company Secretary, whose contact details are set out under the heading of "Sending enquiries to the Board" above. Shareholders are encouraged to participate in the Company's general meetings where members of the Board will be available to answer their questions.

The Company's constitutional documents are made available on the Company's website in the section of "Corporate Governance" under the column of "Investor Relationship" and on the Stock Exchange's website. There was no significant change in them during the year under review.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives and maintaining appropriate and effective risk management and internal control systems. The Company has maintained an internal audit function which forms part of the permanent establishment of the Group and is internally resourced and staffed by qualified accounting personnel with suitable experience.

The internal audit function monitors the adequacy and effectiveness of the risk management and internal control systems established within the Company and its subsidiaries for safeguarding assets against unauthorized use, for maintaining proper accounting records, and for ensuring the reliability of financial information. Functional reporting and financial reporting procedures appropriate to the business of the Company's subsidiaries are established for application within the Group. These procedures are designed to enable timely and reliable functional and financial reporting by subsidiaries of the Group and to provide reasonable assurance against material misstatement, errors, losses or fraud. The work of the internal audit function is generally focused on identifying, monitoring and reporting on major risks faced by the Group, including those related to business operations, compliance with laws and regulations and financial reporting. The review of risk management and internal control systems is conducted on an ongoing basis by the internal audit function. The Board is responsible for ensuring that recommendations made by the internal audit function are properly implemented.

The Board recognizes that the Group's internal control system plays a key role in both the management of risks and the assurance of continued compliance with laws and regulations by the Group. The Audit Committee has kept under review the Group's risk management and internal control systems. During the year, the Company has also engaged a professional party to conduct a review of internal controls of business cycles of its packaging products business. The review covers material controls, including financial, operational and compliance controls and risk management functions of the Group. No material internal control defect was noted in the review. Based on its review, the Audit Committee will advise the Board on the adequacy of the Group's risk management and internal control systems, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board considers that the Group has complied with the provisions on risk management and internal controls as stipulated in the CG Code. The Board is satisfied that the Group's risk management and internal control systems including financial, operational and compliance controls and risk management functions as appropriate to the Group have been put in place.

RISKS AND UNCERTAINTIES

The Group is generally operating in an ever-changing business and economic environment. Both QR codes business and packaging products manufacturing business are affected by consumer markets which are volatile and fragile combined with rising labour costs in Mainland China. Volatility in the securities market may also affect the Company's shares investments, resulting in unrealised and realised loss. Market risk for changes in interest rates will affect loans receivable and interest-bearing borrowing. In addition to market risks, the Company is also subject to foreign currency risk, credit risk, liquidity risk and capital risk in the normal course of the Group's business. Particulars of financial risk management of the Company are set out in note 42 to the financial statements.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group continues to commit to comply with the relevant laws and regulations such as the Companies Act 1981 of Bermuda, Hong Kong Companies Ordinance Cap 622, Listing Rules, and laws and regulations implemented by relevant jurisdictions. The Company believes the existing laws and regulations do not have any significant effect on the Group's activities during the year ended 31 December 2018.

ENVIRONMENTAL POLICIES

The Group has developed environmental policies for operating safely and reducing our environmental footprint. Ongoing focus on the health, safety and wellbeing of its employees is the Group's commitment to sustainable future. The Group has fully supported employees who observe the environmental policies and take care of environment.

The Group constantly improves the awareness of employees with respect of energy saving, and reducing resources consumption and recycling of scrap materials. To reduce electricity consumption, lighting equipment are switched off and replaced with energy efficient ones. Staff is reminded that documents are not printed unless it is necessary, printed papers are reused and two-sided printing is encouraged. Scrap materials are undertaken to recycle in use of production. Sewage collection and treatment has been established in the factory to control water pollution.

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group recognizes that our employees, customers and business associates are key elements for our commitment to a resilient and sustainable business. The Group endeavours to provide a safe workplace, where employees are treated with respect and have the potential to grow in their careers. The Group also endeavours to provide consistently high quality and large range of products and services to customers delivered in quick response. With the building of partnership atmosphere, the Group has developed a long- term relationship of loyalty and trust with suppliers and professional bodies, leading to improved products and work together to share best practices.

INSIDE INFORMATION

The Company has adopted a Disclosure of Inside Information Policy. It sets out a framework for the release and control of inside information to ensure that the Company is able to meet its legal and regulatory obligations and requirements as a listed corporation. The Board is generally responsible for ensuring that the Group complies with its disclosure obligations regarding inside information and has established a disclosure group comprising certain directors and management to assist it in determining whether any particular information is inside information and overseeing and coordinating disclosure of inside information of the Group. Inside information should be disclosed by way of an announcement in accordance with the requirements of the Securities and Futures Ordinance (the "SFO") and the Listing Rules. Before relevant information is fully disclosed to the public, the disclosure group will help the Board to ensure that such information is kept strictly confidential.

DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The Board acknowledges that it is responsible for the preparation of financial statements of the Group and for ensuring that financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of financial statements of the Group. The directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company, Moore Stephens CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 55–59.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Reporting Guideline and Scope

This report is the third "Environmental, Social and Governance Report" issued by China Touyun Tech Group Limited ,which is prepared in accordance with the Appendix 27 "Guidelines for Environmental, Social and Governance Report" to the Listing Rules on the main board of the Stock Exchange of Hong Kong and the actual situation of the Company. This report discloses the environmental and social performance of the Group during the period from January 1, 2018 to December 31, 2018. Unless otherwise stated , the content of the report will include packaging production in Zhongshan and QR code business in Shanghai and Beijing.

Environmental,Social and Governance Management Approach

China Touyun shoulders our corporate social responsibility and gradually integrates sustainable development into the Group's business strategy and daily operation when developing packaging and QR code businesses. Sustainable development management is led by various functional departments, including the Human Resources Administration Department and the Procurement Department. The Board of Directors is committed to improving environmental, social and governance performance step by step through setting priorities according to its substantive nature.

The Group is committed to providing high-quality products and services to every customer. Its production process has been internationally certified, including ISO 9001:2015 Quality Management System, ISO27001:2013 Information Security Management System, CMMI3[1] and other certifications. In terms of environmental protection, we continue to invest in resources to manage pollutant emissions to ensure compliance with laws and regulations and to reduce the environmental impact caused by operation. The Group regards employees as important assets and is committed to helping employees develop their potential and grow together with the Company. Looking ahead, we will strive to more systematically manage sustainable development issues that have a significant impact on us and to create shared value for stakeholders.

1 CMMI3 is Capability Maturity Model Integration Level 3, a quality management and quality assurance standard developed by the American Software Engineering Institute for software products.

Stakeholder Communication

The Group maintains constant communication with different stakeholders, including customers, employees, suppliers, investors and the community. Set out below is a list of stakeholders and their issues of concern, as well as communication channels.

Customers	Employees	Environment	Suppliers	Shareholders/ Investors	Community
Issues of Concern					
Quality Assurance, Customer Satisfaction, Data Protection, Integrity	Health and Safety, Training and Development, Welfare	Environmental Protection and Compliance	Raw Material Procurement, Integrity	Company Operations, Corporate Governance, Risk Management, Intellectual Property Protection	Community Investment
Communication Channels					
Customer Satisfaction Survey, Company Website, News Release	Training, Physical Examination, Internal Communication	Encourage Employees to Save Electricity and Regularly Review the Updated Laws and Regulations of the Ministry of Environmental Protection	Regular Inspection	Annual General Meeting, Financial Report, ESG Report	Volunteers, Care for Community Activities, Voluntary Contributions

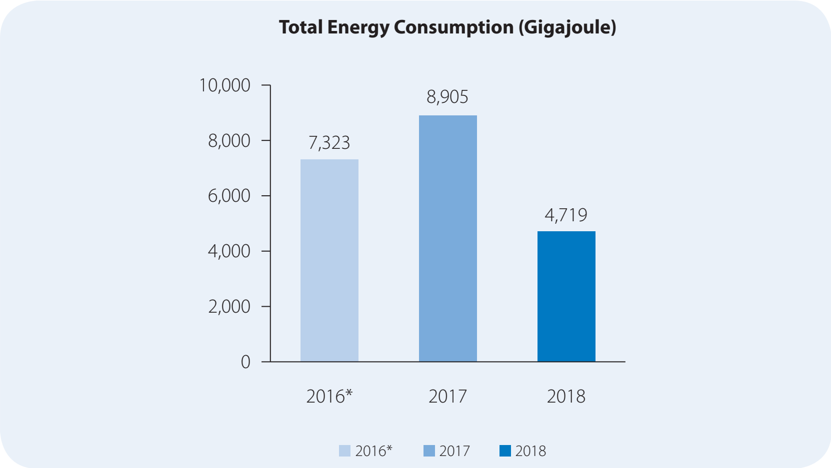
Environmental Protection

China Touyun is actively implementing environmental management measures in resource consumption,"Three Wastes" treatment and other areas, and strives to reduce the environmental impact caused by operation.

Resource Consumption

Energy

The energy consumption of the Group's business is mainly electricity, gasoline and diesel. Electricity is used for office and factory operations, and fuel consumption comes from vehicle transportation. During the year, the Group's total energy consumption was 4,719 gigajoules, and its energy consumption intensity was 13.48 gigajoules per million HKD revenue.

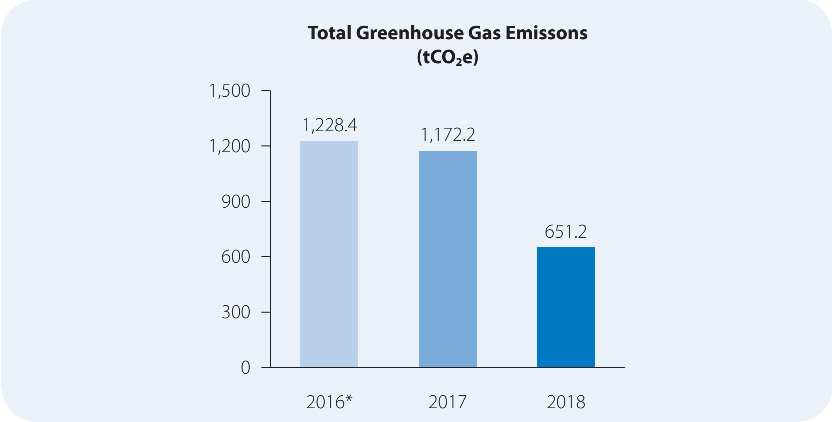


(* The data for 2016 did not take into account the business in Beijing)

The decrease in total energy consumption was due to the relocation of the Zhongshan Plant to a smaller new plant during the year and the absence of staff dormitory in the new plant, resulting in a reduction of approximately 47% in electricity consumption of the Group compared with last year. In order to reduce energy consumption, the Group actively advocates energy conservation. For the Zhongshan Plant, the Group encourages employees to turn off unused energy switches. We remind employees to clean and maintain the equipment daily to extend their service life. For the Shanghai Company, LED lights have been used in office lighting to reduce electricity consumption.

Greenhouse Gas Emissions

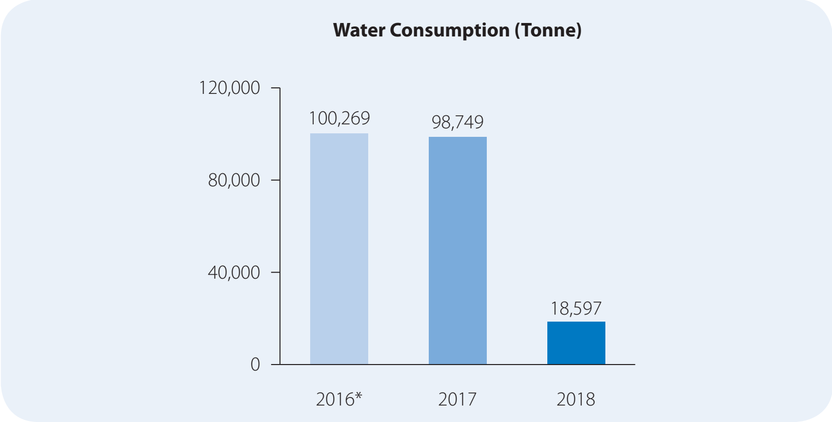
During the year, the Group emitted a total of approximately 651.2 tonnes of carbon dioxide equivalent (tCO_2e), among which, the Scope 1 (direct emissions) includes the fuel use of the Group's vehicles, with emissions of approximately 101.1 tCO_2e, a decrease of 97.5 tCO_2e over last year. The Scope 2 (indirect emissions) is electricity consumption, with emissions of approximately 550.1 tCO_2e, a decrease of 423.5 tCO_2e over last year. The greenhouse gas emission intensity is 1.86 tCO_2e per million HKD revenue. The Group is committed to reducing greenhouse gas emissions and mitigating the greenhouse effect from reducing electricity consumption. Please refer to the "Energy" section for details.



(* The data for 2016 did not take into account the business in Beijing)

Water Resources

The Group's water consumption is mainly domestic water. Part of the production process in Zhongshan packaging business, such as processing beer box forming and plastic absorption process, will consume part of the production water. During the year, the Group consumed about 20,000 tonnes of water resources. As there was no staff dormitory in Zhongshan New Factory, the water consumption of the factory decreased by about 80,000 tonnes compared with last year. Water consumption intensity is 53.13 tonnes/million HKD revenue. During the year, there were no issues on sourcing of water reported to the Group.



(* The data for 2016 did not take into account the business in Beijing)

The Group attaches great importance to water saving. Our Zhongshan Factory has formulated a water saving plan which the Group encourages employees to strictly abide by. Details are as follows:

- Regularly inspect and replace of taps, pipe valves, flushing valves and other drainage and water supply devices
- Repair drainage and water supply devices timely when leakage is found to prevent the waste phenomenon of "running, emerging, dripping and leaking"
- Recycle water resources to improve its utilization rate
- Promote water saving to raise staff's awareness of water saving
- Put a water-saving label in front of the tap to remind employees to save water consciously

Material Consumption

The Group's main material consumption includes packaging materials, Zhongshan Factory mainly uses plastic bags and cartons, and Shanghai Company mainly uses plastic bags. In response to environmental protection, plastic transfer boxes in Zhongshan Factory will be reused. For Shanghai Company, in order to save paper consumption, we use online communication methods such as WeChat, Ding Talk and so on. During the year, Zhongshan Factory consumed about 7.35 tonnes of plastic bags and 514 tonnes of cartons, which were reduced by 1 tonne and 71 tonnes respectively compared with last year. In addition, the Shanghai Company consumed 70 tonnes of plastic bags, an increase of 5 tonnes over last year.

Three Waste Treatment

The Group strictly abides by the Environmental Protection Law of the People's Republic of China, the Air Pollution Prevention and Control Law of the People's Republic of China and the Limit Value of Emission of Air Pollutants. These relevant laws and regulations have a significant impact on the packaging manufacturing business of the Group. During the year, the Group was not aware of any violations that had a significant impact on the environment or the Group, including air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Exhaust Gas Emissions

The Zhongshan Plant of the Group has obtained the Pollutant Emission License of Guangdong Province according to law, and discharges the production waste gas according to the rules and standards of the License. In order to reduce the emission of exhaust gas and its impact on the surrounding environment, we concentrate on the collection of exhaust gas from various production processes, and use UV photolysis and activated carbon adsorption treatment to discharge at high altitude. According to the requirements of the environmental protection department of the local government, we ensure that the concentration of toluene pollutants in the exhaust emissions is less than 40 mg/m^3, and that the annual emissions of exhaust gas do not exceed 48 million standard cubic meters.

Production Procedure of Exhaust Gas Discharge in Zhongshan Factory
• Organic exhaust gas pollution during beer box forming and plastic absorption
• Dust from polishing process and oil mist exhaust gas emission from deoiling process
• Pollutant emissions from bronzing, printing and drying processes
• Organic exhaust gas from the gluing process

Due to vehicle use, the Group discharged about 0.58 kg of sulfur oxide (SOx), 150 kg of nitrogen oxide (NOx) and 14.6 kg of suspended particulate matter (PM) during the year.

Exhaust Gas Emissions (kg)			
	2017	**2018**	**Change (%)**
Sulfur oxides (SOx)	1	0.58	-42%
Nitrogen oxides (NOx)	152	150	-1.32%
Suspended particulate matter (PM)	15	14.6	-2.67%

Sewage Treatment

The Group's sewage discharge complies with the Emission Limits of Water Pollutants. In the Zhongshan Factory, the domestic sewage enters the sewage pipe network after passing through the septic tank. The sewage oil in the industrial sewage and production wastewater is stored in a special container or a sewage pool to ensure that leakage prevention measures are taken. They are collected and treated by a special person. The Group strictly prohibits the dumping of sewage containing dirty oil or chemicals into sewer pipes. In addition, the Group's Zhongshan Plant has a clear division of sewage treatment, which is listed in the following table:

The Administration Department	Electrician Department	Each Department
• manage and repair of sewage discharge and rainwater related facilities • discharge declaration	• manage daily discharge of sewage • detect waste water • repair and maintain environmental protection equipment to prevent the discharge of untreated sewage due to equipment accidents or other reasons	• make efforts to reduce sewage discharge and concentration • encourage reuse of waste water • strengthen rainwater recycling and reuse

Waste Disposal

In order to ensure compliance with environmental compliance work, the Company's Legal Department in Shanghai tracks changes in relevant national laws and regulations, and the administrative Personnel Department revises and updates the Company's management system as required. During the year, the Shanghai Company recycled approximately 3.8 tonnes and disposed of approximately 2.6 tonnes of general waste.

Industrial waste generated by the Zhongshan Plant includes scrap paper, scrap rubber, scrap iron and scrap aluminum materials. Industrial waste are stored properly and collected by a specialized recycling company.

During the year, the Zhongshan Plant recycled 210 tonnes of general waste in total, representing only about half of that in last year. It is because we relocate to a smaller factory this year and thereby reducing the volumes of waste generation and recycle.

The Group actively reduces waste from reducing material consumption. For details, please refer to the "Material Consumption" section. The Group's business does not involve the emission of hazardous wastes.

Environmental Emergency Management

In order to cope with environmental emergencies in time, Zhongshan Factory has formulated environmental emergency plans to improve the Company's ability to cope with environmental emergencies to protect the environment. The Group has an emergency environmental management leadership group and implements the following measures in the event of an emergency:

Precaution
- Establish an environmental incident risk precaution system
- Control and eliminate hidden dangers actively and timely

Environmental Emergency
- The team organizes on-site command rescue, investigation and dynamic monitoring of the surrounding area
- Remove, seal or destroy residual pollutants in a timely manner
- Control pollution sources, disinfect polluted parts and polluted items, places and environments, and resume production order as soon as possible

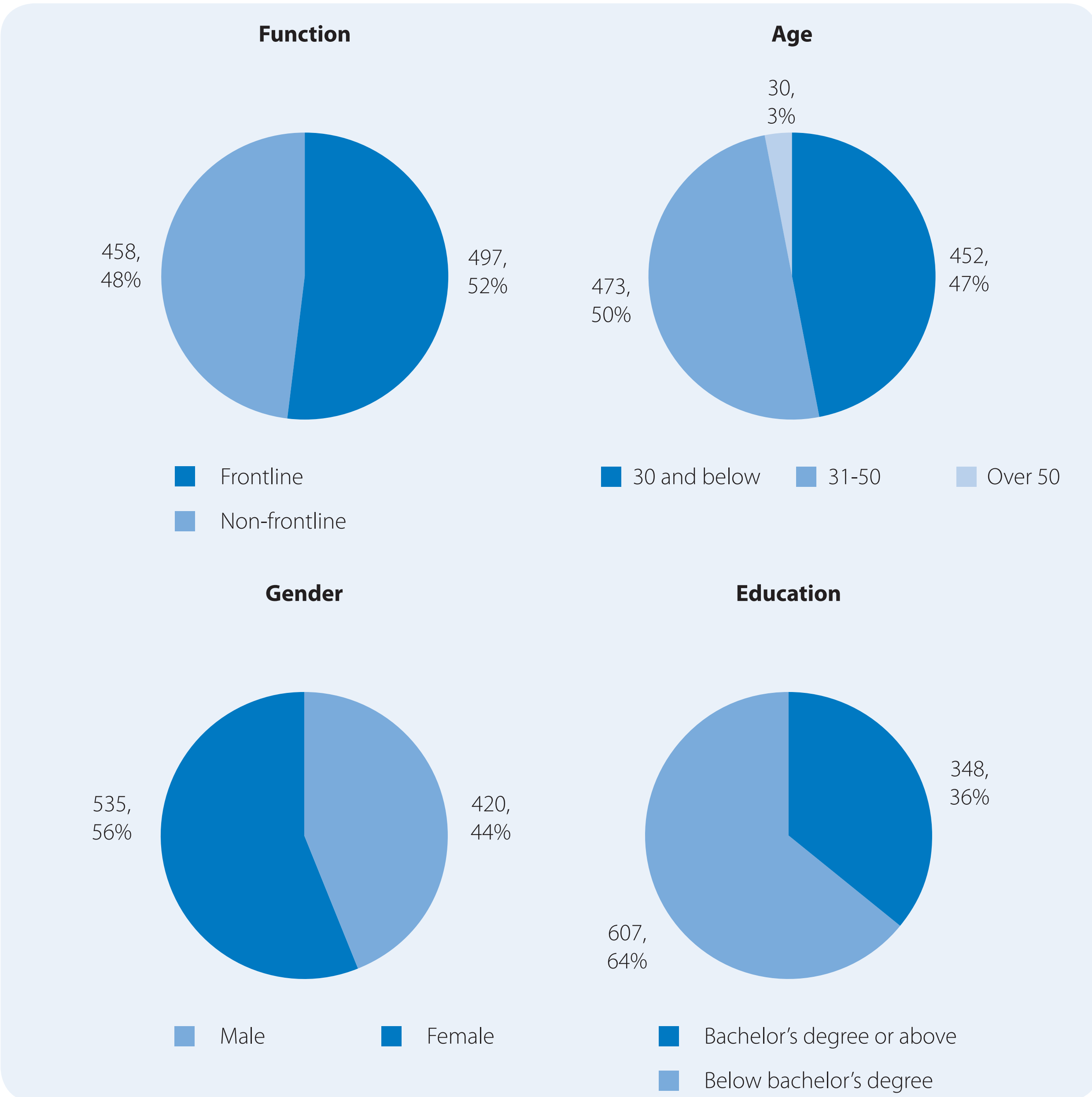
Confirm environmental Safety
- Conduct environmental safety assessment timely
- Find out the cause of the accident and summarize the lessons timely

People-Oriented

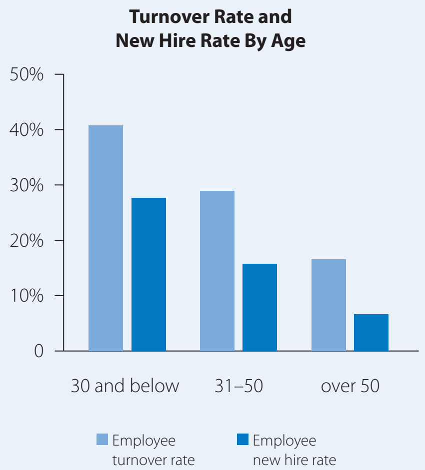
China Touyun integrates internet and traditional industry innovation. We take professional innovation as the primary criterion for talent introduction to establish a high-level and high-quality elite team. We actively seek to cooperate with well-known IT institutions and introduce advanced technology as well as expert teams in mainland and abroad.

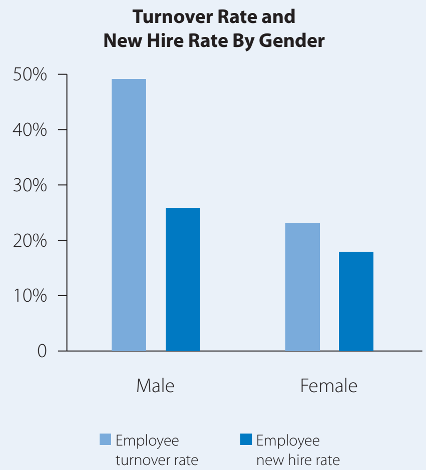
Employee Composition

In 2018, the Group has 955 employees in total (2017: 936), 512 working in Zhongshan, 358 working in Shanghai and 85 working in Beijing respectively. Among them, 52% are frontline employees and 48% are non-frontline employees, with no significant changes compared to 2017. The number of employees of the Group whose age is under 30 years old has increased compared with last year, accounting for 47% of the total number (2017: 31%). In addition, the Group's male employees accounted for 44%, while female accounted for 56%, maintaining the same situation of more female than male as last year. Employees with a bachelor's degree accounted for 36%, an increase of 4% over 2017.



During the year, the total turnover rate of the Group's employees was approximately 34%, and the total new hire rate was approximately 21%. Its turnover rate and new hire rate by age and gender are illustrated in the following charts:

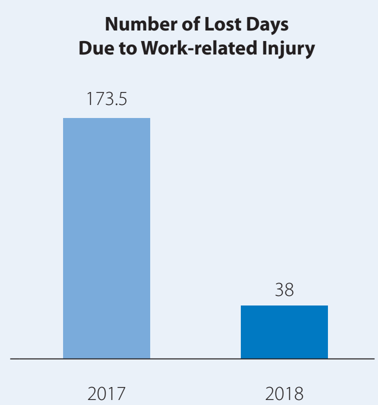




Health and Safety

Employees are our valuable asset and we are committed to protecting their occupational health and safety. The Group has been strictly abiding by the Safety Production Law of the People's Republic of China, the Occupational Disease Prevention and Control Law of the People's Republic of China and other relevant laws and regulations that have a significant impact on the Group. During the year, the Group was not aware of any violations of relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protection of employees from occupational hazards.

During the year, the Group had five work-related accidents, with five people injured due to work, and 38 lost days recorded, a 78% decrease from last year. We will continue to strengthen precaution work, including regular updating of the Occupational Hazard Related System and strictly enforce it to effectively prevent and control the risks. During the year, the Group appointed safety and health professionals and safety officers to establish and implement safety and health plans. The safety and health of working environment is regularly examined to safeguard the health of employees. In addition, the Group arranges pre-employment and annual physical examinations for employees, and requires them to sign a Health Statement to understand their physical condition and reduce the risk of occupational diseases. We also organize employee activities regularly to ease their pressure from work.



The Group attaches great importance to safety training to reduce the occurrence of work-related accidents. During the year, the employees of the Group participated in a total of 986 hours of occupational safety and health training. There was a total of about 700 safety training person-times, which was more than that of 206 in 2017. The Group regularly arranges first aid, fire fighting and evacuation escape drills, and Zhongshan Factory organizes fire fighting knowledge training and chemical emergency drills during the year.

Development and Training

Talent resource is an important cornerstone of the development of China Touyun. We establish a training resource system, including but not limited to, internal and external training and tutorial system. We encourage employees to develop their own potential and enhance their competitiveness in the workplace through motivated-learning. Through training need analysis system and training evaluation mechanism, the Group arranges suitable positions and training courses for employees. In addition to pre-employment training for new employees, we also provide on-the-job training for development engineers to ensure that employees in all positions adapt to and master relevant knowledge and skills in a timely manner.

In addition, the Group has an internal trainer management system. The certified internal trainers teach the knowledge and skills to other employees. They have priority in having internal training opportunities and can apply for resources such as professional training from external institutions and further education. Their grades and the number and quality of courses taught will be important indicators for evaluation and promotion.

For special operators, the Group invites third-party professionals to conduct training to assist employees in obtaining relevant certificates, such as safety production training certificates and occupational health training certificates. We also provide courses on safety use of machine, employee safety use of chemical and machine emergency rescue to improve the safety awareness of special operators and the safety quality of the Group.

During the year, the Group had a total of 105 employees trained. The total training hours were 718 hours (2017: 4,133 hours).The reason for the decrease is that the proportion of new employees who received training last year is relatively larger. By gender, the average number of training hours for male and female are about 2.7 hours and 1.1 hours respectively. By function, the number of frontline and non-frontline employees who received training are about 1.7 hours and 1.1 hours respectively.

Employee Rights

The Group strictly abides by the labour laws and regulations of the place where it operates, including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Law on Protection of Workers' Rights and Interests. During the year, the Group was not aware of any violations of laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, anti-discrimination, prevention of child labour and forced labour as well as other benefits and welfare. There were no significant fines and no non-monetary sanctions for non-compliance with labour laws and regulations.

The Group has staff codes of conducts which specify in detail the Company's policies on compensation and dismissal, recruitment and promotion, working hours, holidays, anti-discrimination,prevention of child labour and forced labour, as well as other benefits and welfare, in order to ensure the Group's legitimate and compliant operation.

In order to avoid the employment of child labour and forced labour, the Group requires employees to verify their identity cards before working and prohibit the employment of child labor under the age of 16 . We ensure that workers' rights are not restricted and that labour contracts are made on the basis of mutual agreement. In addition, we strictly enforce the system of clocking attendance. If overtime or extended working hours are required due to production, the principle of voluntariness is applied to ensure the health of employees.

The Group is committed to creating a fair and just working environment. We establish an appeal and complaint mechanism. In the event that employees are being discriminated against or unreasonably treated. The employees can reflect through the system. The workers' representatives and the management of the Group will handle and response to them directly. We handle each complaint strictly to protect the interests of employees.

Operation Management

China Touyun is committed to providing customers with high quality and stable products and service. By obtaining more international certifications, it strives to improve the details of operation and management in order to enhance customer satisfaction.

Customer First

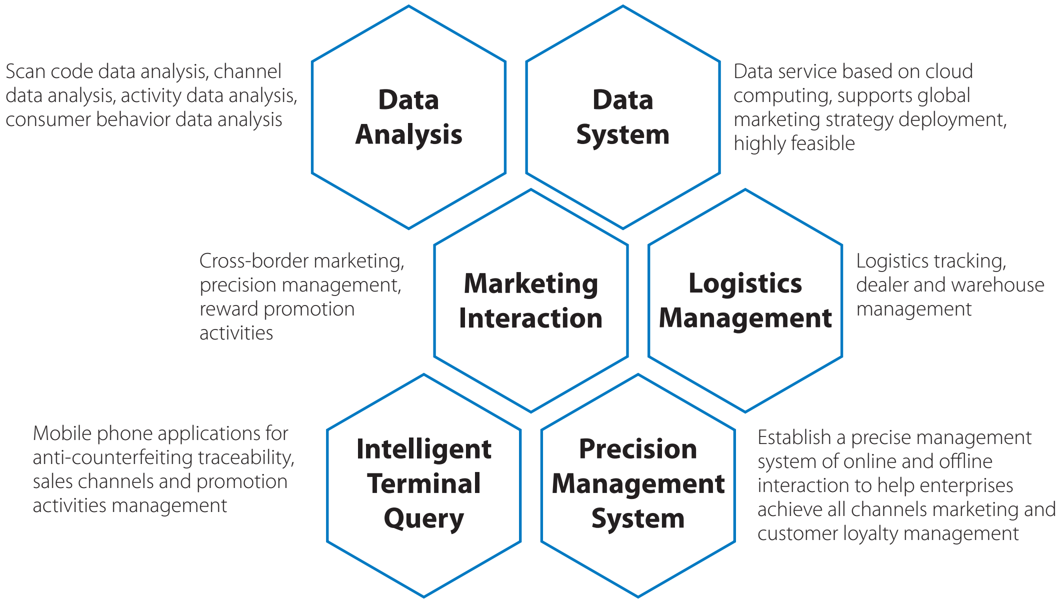
We attach importance to the feelings and opinions of each customer, and provide different ways to communicate with customers and collect their opinions. Zhongshan Factory has set up Customer Complaint Procedure. When customers complain, relevant departments will analyze the reasons. Response and preventive measures are formulated and implemented to prevent reoccurrence of similar incidents. We maintain communication throughout the process with customers as well as respect and accept their opinions.

Shanghai Business establishes the Customer Satisfaction Measurement Procedure,which establishes Customer Satisfaction Index evaluation indicators and questionnaires, and distributes questionnaires and analysis results every year. When customer satisfaction is close to or below the standard, the main cause will be identified and the Corrective and Preventive Measures Control Procedure will be implemented. Abnormal conditions will be thoroughly checked and make improvement on the aspects of label and equipment.

The customer satisfaction analysis report of 2018 shows that the average total customer satisfaction rate is 96%, which achieves and exceeds the Company's quality target value. On the premise of respecting and willing to listen to customers' opinions, the Group continues to optimize to bring better products and service experience to customers.

In addition, in order to make the QR code business more comprehensive and convenient for consumers, the Group provides a full range of one-stop marketing solutions for enterprises through the research and development of cloud computing and mobile internet technologies. The new one-stop marketing solution services include data analysis through QR code, logistics management,intelligent terminal query of anti-counterfeiting traceability, and marketing interaction with customers. It also includes precise management system services to help manage online and offline interactions and cloud-based calculated data system services. The above new services will help promote direct communication between brands and consumers, making our customers to be more convenient at the same time.

Service Content of One-stop Marketing Scheme



Supplier Management

The Group attaches great importance to the quality of raw materials and the procurement process. We select suppliers for Packaging and QR code businesses according to strict standards. We regularly evaluate suppliers to ensure that all the raw materials procured by the Group are of high quality, laying a good foundation for product quality assurance. During the year, the geographical distribution of the Group's suppliers is as follows: the Group has 160 suppliers (2017:190), among which 133 (2017:119) and 26 (2017:65) are mainly distributed in the mainland and Hong Kong respectively, accounting for 99% of the total number of suppliers.

We select suppliers according to relevant standards of business nature. Zhongshan Factory has formulated Procurement Policies and the Standards for Selection of Suppliers. Shanghai Company has also formulated Suppliers and Purchase Control Procedures. We require suppliers to provide quality management system certification or production license, and must comply with the sample test requirements to ensure that their products and packaging meet the relevant EU and US standards before they can be included in the list of qualified suppliers.

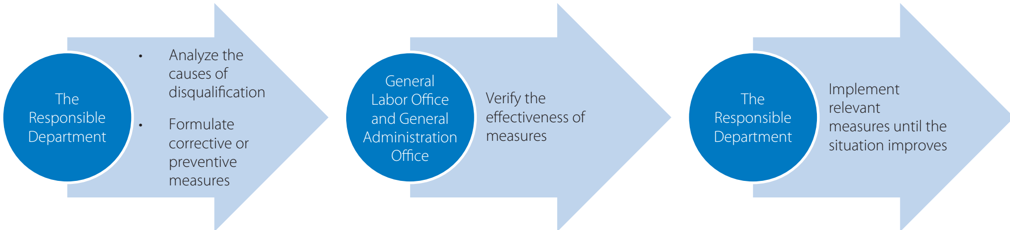
The Zhongshan Plant regularly evaluates the quality of the suppliers and determines the suppliers' qualifications in a clear and transparent standard procedure. According to the procedure, the Zhongshan Plant reminds suppliers who have failed to meet the initial standards. Suppliers who fail to make improvements according to the problem will be disqualified from supply.

In terms of QR code business, Shanghai Company has formulated the Supplier Performance Assessment Form to assess supplier performance. When serious quality problems occur in the supplier's products, the Procurement Responsibility Department will deal with them according to the internal requirements of the Corrective and Preventive Measures Control Procedure. We handle the incident with sufficient communication and clear instructions, and explain it to the relevant stakeholders.

Quality Assurance

The Group understands the importance of product quality assurance, which is the key to maintaining long-term development with customers. The Group is committed to enhancing customer confidence with high quality products and services. Since 2014, the Shanghai Plant has obtained ISO9001:2015 quality management system certification, and evaluates the production process with international indicators to become a guarantee of customer confidence.

The Zhongshan Plant formulates and implements the overall quality policy and quality objectives of the plant by the general manager and deputy manager every year. We formulate a series of quality management related procedures, and regularly carry out full or random inspection of raw material, semi-finished products and finished products to ensure that the products meet the standards and provide customers with high-quality products.



Processing Procedure for Product Quality Problems

During the year, the Shanghai Plant was informed of a complaint about the abnormal quality of the product label. The Shanghai Plant formulates the preventive and corrective measures after analyzing the main cause of the incident according to the Corrective and Preventive Measures Control Procedures and the Non-Conforming Product Control Procedures. We then request for replenishment from the supplier and it did not cause any significant impact.

During the year, the Group was not aware of any violations of relevant laws and regulations that have a significant impact on the Group relating to health and safety, labelling and privacy matters relating to products and services provided and methods of redress. Our business does not involve advertising. Therefore, these aspects do not have significant impact on our operations. During the year, there were no reported incidents on infringement of laws and regulations regarding product responsibility.

Intellectual Property and Data Protection

Intellectual property is an important intangible asset of the Group. The Group strictly abides by the Patent Law of the People's Republic of China to safeguard and protect intellectual property. The Group has also set up the Intellectual Property Management System, the Customer Property Management Procedure and the Source Code Management Regulations, which focus on controlling and guaranteeing source code integrity the safeguarding intellectual property.

We attach great importance to customer privacy, and have strict internal policies to protect consumer information and privacy. Shanghai has formulated the Confidentiality Agreement. Employees sign the Confidentiality Agreement at the time of entry to ensure that customer and business information will not be leaked. In addition, Shanghai Factory has also obtained ISO27001:2013 information security certification to ensure that data information is properly protected.

Integrity and Impartiality

The Group takes honesty as its main business philosophy and strives to maintain a good atmosphere of non-corruption and integrity within the Group. The Group attaches great importance to honesty and transparency and adopts a zero tolerance attitude towards corruption in any form. In addition to signing the Policy Concerned by Employees for Inappropriate Acts and the Legitimate Compliance Formulation and Employee Commitment Letter to enhance employee's awareness of integrity, existing employees should abide by the Code of Conduct on Employee Integrity formulated by the Group, which strictly prohibits any illegal transactions such as accepting bribes, compensating debts, and returning commissions. They are also not allowed to accept cash incentives or gifts from suppliers, customers or other business organizations that have business relations with the Company.

Shanghai employees need to sign a commitment letter to ensure that the amount of bills, payment forms and processes in the transaction are clearly recorded. Those suspected of committing illegal acts will be subject to disciplinary sanctions or dismissal by the Company. During the year, Zhongshan Factory held anti-corruption and integrity training to enhance staff's awareness of integrity and to maintain the Group's best performance and honesty in many aspects. The Group was not aware of any violations of relevant laws and regulations relating to bribery, extortion, fraud and money laundering during the year, nor involved in any cases of corruption.

Contribution to Society

The Group focuses on community participation, enthusiastic participation in charitable activities, strengthen community relations, in order to give back to society. Zhongshan employees volunteered to take part in the charity cultural tour of Sanjiao Town in 2018 to promote the spirit of love. We sent 20 employees to participate in the activities and donated RMB 5000 to build a new outpatient building in Sanjiao Hospital. The Group believes that community participation is of great help to an inclusive community and is committed to building a harmonious society.

Data Summary

		Unit	2018	2017
Environment	**Resources Consumption**			
	Electricity	Kilowatt-hour	961,226	1,799,177
	Gasoline	Liter	26,796	63,335
	Diesel	Liter	11,300	11,430
	Total Energy Intensity	Gigajoule per million HKD revenue	13.48	–
	Tap Water	Tonne	18,597	98,749
	Water Intensity	Tonne per million HKD revenue	53.13	–
	Greenhouse Gas			
	Total Greenhouse Gas Emissions	Tonnes of carbon dioxide equivalent	651.2	1,172.2
	Direct Emission (Scope I)	Tonnes of carbon dioxide equivalent	101.1	198.6
	Indirect Emission(Scope II)	Tonnes of carbon dioxide equivalent	550.1	973.6
	Emission Intensity	Tonnes of carbon dioxide equivalent per million HKD revenue	1.86	–
	Exhaust Gas Pollutants			
	Nitrogen Oxides	kg	150	152
	Sulfur Oxides	kg	0.58	1
	Suspended Particulate Matter	kg	14.6	15
	Waste			
	Hazardous Waste	Tonnes	0	0
	General Waste (Recycled)	Tonnes	213.8	440.02
	General Waste (Disposal)	Tonnes	2.6	2.3
	Package Material Consumption			
	Plastic Bag	Tonnes	77.35	73.35 (unit updated to tonnes)
	Carton	Tonnes	514	585 (unit updated to tonnes)

		2018	2017
Employee	**Total Number**	955	936
	Gender		
	Male	420	397
	Female	535	539
	Function		
	Frontline	497	498
	Non-frontline	458	438
	Age		
	≤30	452	288
	31–50	473	620
	> 50	30	28
	Region		
	Zhongshan	512	515
	Shanghai	358	322
	Beijing	85	99
	Education		
	Bachelor's Degree or Above	348	300
	Below Backelor's Degree	607	636
	Turnover — By Age		
	Turnover Number		
	≤30	186	232
	31–50	138	144
	> 50	5	2
	Turnover Rate		
	≤30	41%	–
	31–50	29%	–
	> 50	17%	–

		2018	2017
Employee	**Turnover — By Gender**		
	Turnover Number		
	Male	206	192
	Female	123	186
	Turnover Rate		
	Male	49%	–
	Female	23%	–
	New Hire — By Age		
	New Hire Number		
	≤30	126	216
	31–50	75	140
	> 50	2	2
	New Hire Rate		
	≤30	28%	–
	31–50	16%	–
	> 50	7%	–
	New Hire — By Gender		
	New Hire Number		
	Male	108	208
	Female	95	150
	New Hire Rate		
	Male	26%	–
	Female	18%	–

		Unit	2018	2017
Employee	**Employee Training Performance — by Gender**			
	Total Number of Trained Employees			
	Male		55	–
	Female		50	–
	Total Hours of Training			
	Male		368	–
	Female		350	–
	Employee Training Performance — By Function			
	Total Number of Trained Employees			
	Frontline		63	–
	Non-frontline		42	–
	Total Hours of Training			
	Frontline		500	–
	Non-frontline		218	–
	Occupational Safety and Health Training			
	Total Person-times of Training		696	206
	Total Hours of Training		986	1,541
	Occupational Safety and Health Performance			
	Number of Work-related Accidents		5	7
	Number of Work-related Injuries		5	–
	Lost Days Due to Work-related Injuries		38	173.5
	Work-related Fatalities		0	0
Community	**Participation and Public Welfare Input**			
	Charitable donation	Ten thousand RMB	0.5	0.5

HKEX ESG Reporting Content Index

KPIs	HKEX ESG Report Guide Requirements		Section/Remarks
A. Environmental			
Aspect A1: Emissions	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Three Waste Treatment
	KPI A1.1	The types of emissions and respective emissions data.	Exhaust Gas Emissions, Sewage Treatment
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Greenhouse Gas Emissions
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Waste Treatment
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Waste Treatment
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	Greenhouse Gas Emissions — Energy
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Waste Treatment

KPIs	HKEX ESG Report Guide Requirements		Section/Remarks
Aspect A2: Use of Resources	**General Disclosure** Policies on the efficient use of resources, including energy, water and other raw materials.		Environment Protection
	KPI A2.1	Direct and/or indirect energy consumption by type in total (kWh in ’000s) and intensity.	Energy
	KPI A2.2	Water consumption in total and intensity.	Water Resources
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Energy, Water Resources, Material Consumption
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water Resources
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Material Consumption
Aspect A3: The Environment and Natural Resources	**General Disclosure** Policies on minimizing the issuers’ significant impact on the environment and natural resources.		Environmental Emergency Management
	KPI A3.1	Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Emergency Management

KPIs	HKEX ESG Report Guide Requirements		Section/Remarks
B. Social			
Aspect B1: Employment	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.		Employee Rights
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employee Composition
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employee Composition
Aspect B2: Health and Safety	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Health and Safety
	KPI B2.1	Number and rate of work-related fatalities.	Health and Safety
	KPI B2.2	Lost days due to work injury	Health and Safety
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety
Aspect B3: Development and Training	**General Disclosure** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Development and Training
	KPI B3.1	The percentage of employees trained by gender and employee category.	Development and Training
	KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training

KPIs	HKEX ESG Report Guide Requirements		Section/Remarks
Aspect B4: Labour Standards	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.		Employee Rights
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Employee Rights
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Employee Rights
Aspect B5: Supply Chain Management	**General Disclosure** Policies on managing environmental and social risks of the supply chain		Supplier Management
	KPI B5.1	Number of suppliers by geographical region.	Supplier Management
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supplier Management
Aspect B6: Product Responsibility	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Quality Assurance
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Quality Assurance
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Quality Assurance
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Business Ethics
	KPI B6.4	Description of quality assurance process and recall procedures.	Quality Assurance
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Intellectual Property and Data Protection

KPIs	HKEX ESG Report Guide Requirements		Section/Remarks
Aspect B7: Anti-corruption	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Integrity and Impartiality
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Integrity and Impartiality
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Integrity and Impartiality
Aspect B8: Community Investment	**General Disclosure** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Feedback to Society
	KPI B8.1	Focus areas of contribution	Feedback to Society
	KPI B8.2	Resources contributed to the focus area.	Feedback to Society

MOORE STEPHENS

Moore Stephens CPA Limited
801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180
F +852 2375 3828

www.moorestephens.com.hk

大華馬施雲
會計師事務所有限公司

Independent Auditor's Report to the Members of China Touyun Tech Group Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Touyun Tech Group Limited and its subsidiaries (the "Group") set out on pages 60 to 159, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How the matter was addressed in our audit
Impairment assessment of goodwill	
As at 31 December 2018, the Group had goodwill amounted to HK$165 million. Goodwill is required to be assessed for impairment at least annually in accordance with the applicable accounting standard. An impairment loss of approximately HK$37 million was recognised for the year ended 31 December 2018. Impairment assessment is subjective and highly judgemental and has a high degree of estimation uncertainty. We therefore identified the impairment assessment of goodwill as a key audit matter. Details of the impairment assessment of goodwill are set out in note 16 to the consolidated financial statements.	Our procedures to address the matter included: • Discussed with management of the Company and obtained understanding of internal reporting structure, assess the reasonableness and appropriateness of reallocation of goodwill; • Obtained the cash flow forecast of the group of CGUs approved by the directors of the Company for impairment assessment; • Discussed with the management of the Company and evaluated the appropriateness of the application of the value in use requirements; • Discussed with the management of the Company and challenged the reasonableness of key assumptions being used based on our knowledge of the business and industry, including the discount rate, sale growth rate, sale quantity and unit selling price; • Checked, on a sample basis, the accuracy, reliability and relevance of the input data used; and • Compared the recoverable amount with the carrying amount of the group of CGUs to assess whether adequacy of impairment loss has been made by the Group.

* *The English name of the PRC entity are translation of Chinese name and are included herein for identification only.*

Key audit matter	How the matter was addressed in our audit
Valuation of financial assets at fair value through profit or loss	
The Group holds unlisted equity investments related to investments in four private entities, which were intended to hold for long-term strategic purpose at the time of acquisition. Such financial assets were measured at fair value on initial application of HKFRS 9 on 1 January 2018 and at the end of each reporting period. The aggregate fair value of these financial assets was HK$243 million as at 31 December 2018. Significant judgements and estimation are required to measure the fair value of financial assets, which reflect market conditions at the end of the reporting period. Management of the Group engaged an external valuer to perform valuation on one of the financial assets as at 31 December 2018. Fair value of the remaining unlisted equity securities were determined by the directors of the Company. Details of the Group's financial assets at fair value through profit or loss are set out in note 19 to the consolidated financial statements.	Our procedures to address the matter included: • Discussed with management of the Group and independent external valuer engaged by the Group and assessed the appropriateness of valuation methodology; • Discussed with management of the Group and independent external valuer and challenged the reasonableness of key assumptions being used based on our knowledge of the business and industry, including the discount rate on lack of marketability, the selection of proxy companies and weighting factor on multiples; • Reviewed the key unobservable inputs used by management of the Company, including reliability of the sources of the inputs and their relevance of the investment; • For the unlisted equity securities with fair value determined by the directors of the Group, we challenged the appropriateness of the valuation techniques used by the directors in light of the nature of underlying business of the investees and the reliability of the data sources as well as adjustments applied to significant valuation inputs given the nature of those inputs; and • Evaluated the competency, capabilities and objectivity external valuer, taking into account its experience and qualifications and business interests with the Group.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the chairman's statement, management discussion and analysis, directors' profile, directors' report, corporate governance report and environmental, social and governance report but does not include the consolidated financial statements and our auditor's report thereon.

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Moore Stephens CPA Limited
Certified Public Accountants

Chan King Keung
Practising Certificate Number: P06057

Hong Kong, 27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Fair value losses on financial assets at fair value through profit or loss held for trading, net	5	**(1,307)**	(80,248)
Revenue	5	**350,077**	397,947
Cost of sales		**(254,090)**	(279,925)
Gross profit		**95,987**	118,022
Other income, gains and losses, net	6	**(72,789)**	(111,520)
Selling and distribution expenses		**(31,645)**	(34,170)
Administrative expenses		**(207,708)**	(138,368)
Finance costs	7	**(41,807)**	(5,693)
Share of result of a joint venture	17(a)	**19**	2,990
Share of result of an associate	17(b)	**7,276**	–
Loss before tax	8	**(251,974)**	(248,987)
Income tax	11	**(1,989)**	(4,229)
Loss for the year		**(253,963)**	(253,216)
Loss attributable to:			
— Owners of the Company		**(253,877)**	(245,226)
— Non-controlling interests		**(86)**	(7,990)
		(253,963)	(253,216)
Loss per share attributable to owners of the Company	13		
— Basic and diluted		**HK(2.59) cents**	HK(2.50) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	14	**36,423**	70,671
Intangible assets	15	**16,054**	15,808
Goodwill	16	**164,702**	201,725
Interests in a joint venture	17(a)	**–**	141,549
Interests in an associate	17(b)	**148,844**	–
Available-for-sale investments	18	**–**	411,240
Financial assets at fair value through profit or loss	19	**243,009**	–
Prepayments	20	**–**	8,772
Total non-current assets		**609,032**	849,765
Current assets			
Inventories	21	**35,597**	22,551
Trade and bills receivables	22	**61,804**	75,251
Prepayments, deposits and other receivables	20	**16,140**	24,917
Note receivable	23	**188,440**	–
Financial assets at fair value through profit or loss	19	**24,250**	14,250
Restricted deposits	24(b)	**10,928**	10,920
Cash and cash equivalents	24(a)	**97,513**	348,655
		434,672	496,544
Non-current assets classified as held for sale	25	**–**	2,116
Total current assets		**434,672**	498,660
Current liabilities			
Trade payables	26	**42,121**	47,795
Contract liabilities	27	**28,883**	–
Other payables and accruals	28	**17,883**	35,884
Tax payable		**4,926**	4,080
Derivative embedded in convertible bond	29	**3,140**	1,827
Convertible bond	29	**219,461**	–
Obligations under finance lease	30	**–**	1,536
		316,414	91,122
Net current assets		**118,258**	407,538
Total assets less current liabilities		**727,290**	1,257,303

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Deferred tax liabilities	31	**42**	56
Convertible bond	29	**–**	298,558
Obligations under finance lease	30	**–**	805
		42	299,419
Net assets		**727,248**	957,884
Equity			
Equity attributable to owners of the parent			
Share capital	32	**97,973**	97,973
Reserves	33	**628,819**	859,369
		726,792	957,342
Non-controlling interests		**456**	542
Total equity		**727,248**	957,884

Wang Liang
Director

Du Dong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Notes	Attributable to owners of the parent								Non-controlling interests HK$'000	Total equity HK$'000
		Issued capital HK$'000	Share premium account HK$'000 (note 33(a))	Capital reserve HK$'000 (note 33(b))	Contributed surplus HK$'000 (note 33(c))	Share option reserve HK$'000 (note 33(d))	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'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 year		–	–	–	–	–	–	(245,226)	(245,226)	(7,990)	(253,216)
Other comprehensive (loss)/income that will be reclassified to profit or loss in subsequent periods: Exchange differences on translation of foreign operations		–	–	–	–	–	7,682	–	7,682	–	7,682
Total comprehensive (loss) income for the year		–	–	–	–	–	7,682	(245,226)	(237,544)	(7,990)	(245,534)
Transaction with non-controlling interests	36	–	–	–	–	–	–	(39)	(39)	39	–
Equity-settled share-based payments	34	–	–	–	–	10,006	–	–	10,006	–	10,006
Transactions with equity shareholders and non-controlling interests		–	–	–	–	10,006	–	(39)	9,967	39	10,006
At 31 December 2017		97,973	1,769,428*	45,291*	(34,425)*	10,006*	3,938*	(934,869)*	957,342	542	957,884

	Notes	Attributable to owners of the parent								Non-controlling interests HK$'000	Total equity HK$'000
		Issued capital HK$'000	Share premium account HK$'000 (note 33(a))	Capital reserve HK$'000 (note 33(b))	Contributed surplus HK$'000 (note 33(c))	Share option reserve HK$'000 (note 33(d))	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000		
At 1 January 2018		97,973	1,769,428	45,291	(34,425)	10,006	3,938	(934,869)	957,342	542	957,884
Impact on initial application of HKFRS 15	2(b)	–	–	–	–	–	(87)	(3,337)	(3,424)	–	(3,424)
Impact on initial application of HKFRS 9	2(b)	–	–	–	–	–	–	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 year		–	–	–	–	–	–	(253,877)	(253,877)	(86)	(253,963)
Other comprehensive (loss)/income that will be reclassified to profit or loss in subsequent periods: Exchange differences on translation of foreign operations		–	–	–	–	–	1,367	–	1,367	–	1,367
Total comprehensive (loss) income for the year		–	–	–	–	–	1,367	(253,877)	(252,510)	(86)	(252,596)
Equity-settled share-based payments	34	–	–	–	–	15,870	–	–	15,870	–	15,870
Share option lapsed		–	–	–	–	(665)	–	665	–	–	–
Transactions with equity shareholders		–	–	–	–	15,205	–	665	15,870	–	15,870
At 31 December 2018		97,973	1,769,428*	45,291*	(34,425)*	25,211*	5,218*	(1,181,904)*	726,792	456	727,248

* These reserve accounts comprise the consolidated reserves of HK$628,819,000 (2017: HK$859,369,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Loss before tax		**(251,974)**	(248,987)
Adjustments for:			
Amortisation of intangible assets	15	**7,838**	435
Bank interest income	6	**(962)**	(208)
Imputed interest income from note receivable	6	**(10,525)**	–
Gain on disposal of subsidiaries	6	**(711)**	–
Dividend in specie from available-for-sale investments	6	**–**	(53,217)
Depreciation	14	**20,669**	8,950
Fair value loss on financial assets at fair value through profit or loss (held for trading), net		**1,307**	80,248
Fair value loss on financial assets at fair value through profit or loss (not held for trading), net	6	**12,791**	–
Fair value loss/(gain) on derivative component of convertible bond	6	**1,313**	(14,515)
Equity-settled share option expense	8	**15,870**	10,006
Finance costs	7	**41,807**	5,693
Gain on dilution of interests in a joint venture	6	**–**	(2,533)
Gain on partial redemption of note receivable	6	**(12,761)**	–
Loss on early redemption of convertible bond	6	**3,843**	–
Share of result of a joint venture		**(19)**	(2,990)
Share of result of an associate		**(7,276)**	–
Loss on disposal of property, plant and equipment, net	6	**2,385**	1,443
Other receivable written off	6	**675**	–
Impairment loss of property, plant and equipment	6	**40,718**	–
Impairment loss of available-for-sale investments	6	**–**	72,168
Impairment loss of trade receivables, net	6	**2,016**	66
Impairment loss of goodwill	6	**37,023**	104,664
		(95,973)	(38,777)
(Increase)/decrease in inventories		**(11,766)**	3,946
Decrease/(increase) in trade and bills receivables, prepayments, deposits and other receivables		**13,736**	(21,980)
(Increase)/decrease in financial assets at fair value through profit or loss (held for trading)		**(11,307)**	3,002
Increase in trade payables, contract liabilities and other payables and accruals		**7,311**	13,197
Cash used in operations		**(97,999)**	(40,612)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash used in operations		**(97,999)**	(40,612)
Interest received		**962**	208
Interest paid		**(18,911)**	(232)
PRC Corporate Income Tax paid		**(1,170)**	(265)
Net cash flows used in operating activities		**(117,118)**	(40,901)
Cash flows from investing activities			
Proceeds from partial redemption of note receivable		**120,000**	–
Purchases of property, plant and equipment		**(27,353)**	(38,596)
Additions to intangible assets		**(8,862)**	(13,398)
Proceeds from disposal of property, plant and equipment		**4,814**	1,270
Net proceeds from disposal of subsidiaries		**2,827**	–
Increase in restricted deposits		**(8)**	(10,920)
Acquisition of financial assets at fair value through profit or loss not held for trading		**(120,200)**	–
Acquisition of subsidiaries	35	**–**	(56,112)
Net cash flows used in investing activities		**(28,782)**	(117,756)
Cash flows from financing activities			
Proceeds from issue of convertible bond	29	**–**	312,000
Issuance cost of convertible bond	29	**–**	(2,561)
Redemption of convertible bond	29	**(105,836)**	–
Repayment of finance lease		**(2,341)**	(732)
Repayment of interest bearing other borrowings		**–**	(12,022)
Net cash flows (used in)/generated from financing activities		**(108,177)**	296,685
Net (decrease)/increase in cash and cash equivalents		**(254,077)**	138,028
Cash and cash equivalents at beginning of year		**348,655**	206,054
Effect of foreign exchange rate changes, net		**2,935**	4,573
Cash and cash equivalents at end of year	24(a)	**97,513**	348,655

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 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).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

Basis of consolidation *(Continued)*

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:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The financial statements of 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 interests 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

(i) 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 balance of Group has recognised the cumulative effect of initial application as an adjustment to the opening balance of 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 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 (iii)) HK$'000	HKFRS 9 carrying amount at 1 January 2018 HK$'000
Financial assets measured at FVTPL				
Equity securities held for trading (note (i))	14,250	–	–	14,250
Equity securities not held for trading (note (iii))	–	411,240	9,514	420,754
	14,250	411,240	9,514	435,004
Financial assets classified as available-for-sale investments under HKAS 39 (note (ii))	411,240	(411,240)	–	–

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

(i) HKFRS 9, *Financial instruments (Continued)*

(a) Classification of financial assets and financial liabilities (Continued)

Notes:

(i) Trading securities were classified as financial assets at FVTPL under HKAS 39. These assets continue to be classified at FVTPL under HKFRS 9.

(ii) 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.

(iii) The remeasurement represented the fair value change of financial assets originally classified as available-for-sale financial assets carried at cost less impairment under HKAS 39.

The measurement categories for all financial liabilities remain the same.

The Group did not designate or de-designate any financial asset 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; and
— 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. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

(i) HKFRS 9, *Financial instruments (Continued)*

(b) Credit losses (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 are always measured at an amount equal to lifetime ECLs. 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

(i) HKFRS 9, *Financial instruments (Continued)*

(b) Credit losses (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.

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.

(c) 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. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

(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.

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

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

(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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

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

(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; or

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 Group's activities do not fall into any of these 3 situations, then under HKFRS 15, the Group 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 as the contracts do not meet the criteria for recognising revenue over 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

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

(c) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) HK$'000	Hypothetical amounts under HKAS 18 (B) HK$'000	Difference: Estimated impact of adoption of HKFRS 15 in 2018 (A) – (B) HK$'000
Line items in the consolidated statement of profit or loss for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Revenue	350,077	346,640	3,437
Cost of sales	(254,090)	(253,697)	(393)
Gross profit	95,987	92,943	3,044
Loss before tax	(251,974)	(255,018)	3,044
Income tax	(1,989)	(1,989)	–
Loss for the year	(253,963)	(257,007)	3,044
Loss attributable to owners of the Company	(253,877)	(256,921)	3,044
Loss per share attributable to owners of the Company			
— Basic and diluted	HK(2.59) cents	HK(2.62) cents	HK0.03 cents
Line items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive loss for the year	(252,596)	(255,640)	3,044
Total comprehensive loss attributable to the owners of the Company	(252,510)	(255,554)	3,044

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

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

(c) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 (Continued)

	Amounts reported in accordance with HKFRS 15 (A) HK$'000	Hypothetical amounts under HKAS 18 (B) HK$'000	Difference: Estimated impact of adoption of HKFRS 15 in 2018 (A) – (B) HK$'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Inventories	35,597	34,539	1,058
Trade and bills receivables	61,804	63,346	(1,542)
Prepayments, deposits and other receivables	16,140	16,033	107
Total current assets	434,672	435,049	(377)
Contract liabilities	(28,883)	–	(28,883)
Other payables and accruals	(17,883)	(46,766)	28,883
Net assets	727,248	727,625	(377)
Reserves	628,819	629,196	(377)
Total equity attributable to owners of the parent	726,792	727,169	(377)
Total equity	727,248	727,625	(377)
Line items in the reconciliation of loss before tax to cash used in operations for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Loss before tax	(251,974)	(255,018)	3,044
Increase in inventories	(11,766)	(12,208)	442
Decrease in trade and bills receivables, prepayments, deposits and other receivables	13,736	17,225	(3,489)
Increase in trade payable, contract liabilities and other payables and accruals	7,311	7,311	–

The significant differences arise as a result of the changes in accounting policies described above.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Issued but not yet effective HKFRSs

Up to the date when these consolidated financial statements are authorised for issue, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these consolidated financial statements.

		Effective for annual reporting periods beginning on or after
HKAS 28 and HKFRS 10 amendments	Sale or contribution of assets between an investor and its associate or joint venture	To be determined*
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017	1 January 2019
HKFRS 9 amendments	Prepayment features with negative compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) Interpretation 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HKFRS 19 amendments	Employee benefits	1 January 2019
HKAS 28 amendments	Long-term interests in associates and joint ventures	1 January 2019

* The amendments were original intended to be effective for annual periods beginning on or after 1 January 2017. The effective date has now been deferred. Early application of the amendments continues to be permitted.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Issued but not yet effective HKFRSs *(Continued)*

HKFRS 16, Leases

As disclosed in note 2(g), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 38, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$17,918,000, the majority of which is payable either between 1 and 3 years after the reporting date.

Other than the recognition of lease liabilities and right-of-use assets, the Group preliminarily expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Investment in a joint venture and an associate

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have right to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

An associate is an entity in which the Group has significant influence, which is the power to participate in the financial and operating policy decision of the investee, but is not control or joint control over those policies.

The Group's investment in a joint venture or an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of a joint venture or an associate is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture or an associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint venture or an associate is eliminated to the extent of the Group's investment in a joint venture or an associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of a joint venture or an associate is included as part of the Group's investment in a joint venture or an associate.

If an investment in a joint venture becomes an investment in an associate or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of joint control over the joint venture or when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated profit or loss. The Group measures and recognises any retained investment at its fair value at the date when significant influence or joint control is lost and is recognised as a financial asset.

Gains or losses on dilution of equity interest in a joint venture or an associate are recognised in consolidated profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2% to 5% or over the unexpired terms of the leases, and not longer than 50 years
Leasehold improvements	20% or over the unexpired terms of the leases, if less than 5 years
Furniture, fixtures and equipment	10% to 33.3%
Motor vehicles	20% to 25%
Plant and machinery	10% to 33.3%
Moulds	15%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(h) Intangible assets other than goodwill

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The principal annual rate used for amortisation is as follows:

Patent	10%
Development costs	33.3%

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss when the asset is derecognised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets other than goodwill *(Continued)*

Research and development expenditure

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

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

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

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(j) Investments and other financial assets

(i) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into 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.

Equity investments

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 at FVTPL or FVTOCI, are recognised in profit or loss as other income.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Investments and other financial assets *(Continued)*

(ii) Policy applicable prior to 1 January 2018

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in that statement of financial position at fair value with net changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends on theses financial assets.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised as finance costs in profit or loss for loans and in other expenses for receivables.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Investments and other financial assets *(Continued)*

(ii) Policy applicable prior to 1 January 2018 *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, gains and losses, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other income, gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are subsequently stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(l) Credit losses and impairment of financial assets

(i) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECL on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents and trade and bills receivables, 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).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of financial assets *(Continued)*

(i) Policy applicable from 1 January 2018 *(Continued)*

Measurement of ECLs (Continued)

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; and

— 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 are always measured at an amount equal to lifetime ECLs. 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of financial assets *(Continued)*

(i) Policy applicable from 1 January 2018 *(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;

— 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, except for investments in debt securities that are measured at FVTOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

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 subsequently 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of financial assets *(Continued)*

(i) Policy applicable from 1 January 2018 *(Continued)*

Basis of calculation of interest income on credit-impaired financial assets (Continued)

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, lease receivable 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.

(ii) Policy applicable prior to 1 January 2018

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of financial assets *(Continued)*

(ii) Policy applicable prior to 1 January 2018 *(Continued)*

Financial assets carried at amortised cost (Continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss — is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial liabilities

Initial recognition and measurement

Financial liabilities, at initial recognition, are recognised at fair value.

The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing other borrowings and financial liabilities at fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, the Group's financial liabilities that include trade and bills payable, other payables and accruals and interest-bearing other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial liabilities *(Continued)*

Subsequent measurement *(Continued)*

Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible loan notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible loan notes using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposure and are readily separate and independent of each other.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

(o) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(p) Inventories and contract costs

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(ii) Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses. Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 2(t).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2(l) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(t)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

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.

(r) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(s) Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of packaging products and QR code packaging products

Revenue is recognised when the customers take procession of and accept the goods. In the comparative period, revenue is recognised when the goods are delivered to customers, which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership have been transferred to the customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Provision of QR code packaging solutions

Revenue is recognised at a point in time when the development of software is completed.

(iii) Advertising display services income

Advertising display services income is recognised over time when the customer simultaneously receives and consumes the benefits provided by the Group's performance.

(iv) Gains or losses on trading of securities

Gains or losses on trading of securities are recognised on a trade date basis when the relevant transaction are executed.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(vii) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(u) Government grant

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(w) Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(x) Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group also operates a Mandatory Provident Fund Exempted Occupational Retirement Schemes Ordinance ("ORSO") retirement benefit scheme for those employees who are eligible to participate in the ORSO scheme. This scheme operates in a way similar to the MPF Scheme, except that when an employee leaves the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group are reduced by the relevant amount of forfeited employer's contributions.

The employees of the Group's subsidiaries which operates in People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(y) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(y) Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(z) Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated to Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(aa) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(ab) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Significant judgement

Revenue recognition from the provision of QR code service relating to the development of software with no alternative use at a point in time

Under HKFRS 15, revenue is recognised over time when any of the criteria set out in note 2(b)(ii)(b) is satisfied. The management assessed criteria (A) and (B) and concluded that these criteria are not met because the development is carried out in the Group's premises. In respect of criterion (C) about whether the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, significant judgement is required in determining whether the terms of the contracts with customers gives the Group an enforceable right to payment for the Group for the work performed to date at all times during the contract period. The Group has considered the relevant local laws that apply to those relevant contracts, the customary business practice of the Group in the industry in which it operates and the relevant legal and regulatory environment. Based on the assessment of the directors of the Company on the foregoing factors, the Group does not satisfy criterion (C). Accordingly, as disclosed in note 2(b)(ii)(b), the revenue from the provision of QR code service relating to the development of software with no alternative use is considered to be performance obligation satisfied at a point in time.

Estimation uncertainty

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

Impairment assessment on goodwill

The Group determines whether goodwill is impaired at least on an annual basis. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the respective group of CGUs and a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2018, the carrying amount of goodwill is HK$164,702,000 (2017: HK$201,725,000) net of accumulated impairment loss of HK$405,245,000 (2017: HK$368,222,000) with impairment loss for the year of HK$37,023,000 (2017: HK$104,664,000) being recognised in profit or loss for the year ended 31 December 2018. Details of the recoverable amount calculation are disclosed in note 16.

Fair value of financial instruments

Certain of the Group's unquoted equity instruments and derivative liability embedded in convertible bond amounting to HK$243,009,000 and HK$3,140,000 as at 31 December 2018 respectively are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques.

Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 41 for further disclosures.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Provision for obsolete and slow-moving inventories

The Group has a general provision policy on inventories based on ageing. The Group's sales and marketing managers review the inventory ageing listing on a periodical basis for those aged inventories. This involves a comparison of the carrying values of aged inventory items with their respective net realisable values. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether allowance needs to be made in respect of any obsolete and defective inventories identified.

Provision of ECL for trade and bills receivables

The Group uses provision matrix to calculate ECL for trade and bills receivables. The provision rates are based on the Group's internal credit review from the Group's historical repayment pattern and the Group's groupings of various debtors that are considered to have similar credit risk. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and adjusted to reflect changes in the forward-looking information. In addition, trade and bills receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and bills receivables are disclosed in notes 42 and 22.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield. The assumptions and models used for estimating fair value for share-based payments are disclosed in note 34.

4. 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.

4. SEGMENT INFORMATION *(Continued)*

	QR code business		Packaging products		Treasury investment		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'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	**73,405**	78,791	**276,225**	318,656	**(860)**	(79,748)	**348,770**	317,699
Segment results	**(195,734)**	(157,723)	**8,423**	25,947	**(890)**	(79,874)	**(188,201)**	(211,650)
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							**(251,974)**	(248,987)

	QR code business		Packaging products		Treasury investment		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Other segment information:								
Capital expenditure								
– operating segment	**44,935**	51,379	**39**	3,662	**–**	–	**44,974**	55,041
– unallocated							**13**	25
							44,987	55,066
Interest income								
– operating segment	**849**	160	**28**	46	**–**	–	**877**	206
– unallocated							**10,610**	2
							11,487	208
Depreciation								
– operating segment	**18,941**	7,422	**1,719**	1,518	**–**	–	**20,660**	8,940
– unallocated							**9**	10
							20,669	8,950
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 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

4. SEGMENT INFORMATION *(Continued)*

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

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

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:

	2018 HK$'000	2017 HK$'000
Hong Kong	**149,790**	295,539
Mainland China	**216,233**	142,986
	366,023	438,525

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 revenue is as follows:

	2018 HK$'000	2017 HK$'000
Customer A	**45,559**	96,766
Customer B	**39,268**	N/A

5. REVENUE

(i) An analysis of 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:

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

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.

An analysis of revenue from contracts with customers by geographic markets is disclosed in note 4.

The Group's customer base is diversified and information about major customers is disclosed in note 4. Details of concentrations of credit risk are set out in note 42(b).

5. REVENUE *(Continued)*

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, there is no transaction price allocated to the remaining performance obligations under the Group's existing contracts due to all existing advertising display services contracts have been completed.

6. OTHER INCOME, GAINS AND LOSSES, NET

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

	Notes	**2018 HK$'000**	2017 HK$'000
Bank interest income		**962**	208
Imputed interest income from note receivable		**10,525**	–
Dividend in specie from available-for-sale investment	18(iv)	**–**	53,217
Sale of scrap materials		**127**	100
Gain on dilution of interests in a joint venture	17	**–**	2,533
Gain on partial redemption of note receivable		**12,761**	–
Gain on disposal of subsidiaries, net		**711**	–
Loss on early redemption of convertible bond ("CB")		**(3,843)**	–
Fair value (loss)/gain on derivative component of CB (including changes arising from early redemption of CB)	29	**(1,313)**	14,515
Fair value loss on financial assets at fair value through profit or loss (not held for trading), net	19	**(12,791)**	–
Foreign exchange differences, net		**(756)**	(4,465)
Impairment loss of property, plant and equipment	14	**(40,718)**	–
Impairment loss of goodwill	16	**(37,023)**	(104,664)
Impairment loss of trade receivables, net	42(b)	**(2,016)**	(66)
Impairment loss of available-for-sale investments	18	**–**	(72,168)
Loss on disposal of property, plant and equipment, net		**(2,385)**	(1,443)
Other receivable written off		**(675)**	–
Others		**3,645**	713
		(72,789)	(111,520)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Note	2018 HK$'000	2017 HK$'000
Interest expense on CB	29	**41,187**	5,461
Interest on obligations under finance lease		**620**	76
Interest expense on other borrowings		**–**	156
		41,807	5,693

Included in 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.

8. LOSS BEFORE TAX

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

	Notes	2018 HK$'000	2017 HK$'000
Auditor's remuneration		**1,350**	1,200
Cost of inventories sold		**254,090**	279,925
Depreciation	14	**20,669**	8,950
Amortisation of intangible assets	15	**7,838**	435
Minimum lease payments under operating leases		**15,152**	12,901
Research and development cost		**42,201**	42,586
Less: Capitalised amount	15	**(8,862)**	(13,398)
		33,339	29,188
Employee benefits expenses (including directors' remuneration (note 9)):			
Wages and salaries		**63,193**	114,489
Pension scheme contributions		**7,355**	9,086
		70,548	123,575
Equity-settled share option expense	34	**15,870**	10,006

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, Section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 HK$'000	2017 HK$'000
Fees	744	791
Other emoluments:		
Salaries, allowances and benefits in kind	3,870	3,498
Bonus	429	455
Share-based payments	2,517	139
Pension scheme contributions	84	97
	7,644	4,980

(a) Executive directors and non-executive directors

Year ended 31 December 2018	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Pension scheme contributions HK$'000	Sub-total HK$'000	Share-based payments HK$'000	Total remuneration HK$'000
Executive directors:							
Mr. Wang Liang	–	1,200	200	18	1,418	737	2,155
Mr. Du Dong	–	960	160	18	1,138	614	1,752
Mr. Lo Yuen Wa Peter	–	975	39	18	1,032	183	1,215
	–	3,135	399	54	3,588	1,534	5,122
Non-executive director:							
Mr. Chen Hui	–	735	–	30	765	614	1,379
	–	735	–	30	765	614	1,379
	–	3,870	399	84	4,353	2,148	6,501

9. DIRECTORS' REMUNERATION *(Continued)*

(a) Executive directors and non-executive directors *(Continued)*

Year ended 31 December 2017	Note	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Pension scheme contributions HK$'000	Sub-total HK$'000	Share-based payment HK$'000	Total remuneration HK$'000
Executive directors:								
Mr. Wang Liang		–	1,200	200	18	1,418	40	1,458
Mr. Du Dong		–	960	160	18	1,138	34	1,172
Mr. Lo Yuen Wa Peter		–	936	78	18	1,032	10	1,042
		–	3,096	438	54	3,588	84	3,672
Non-executive directors:								
Mr. Chen Hui		–	402	17	43	462	34	496
Dr. Lam How Mun Peter	(i)	47	–	–	–	47	–	47
		47	402	17	43	509	34	543
		47	3,498	455	97	4,097	118	4,215

Note:

(i) Resigned on 23 January 2017

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Fees HK$'000	Bonus HK$'000	Share-based payments HK$'000	2018 Total HK$'000	2017 HK$'000
Mr. Cheung Wing Ping	248	10	123	381	255
Mr. Ha Kee Choy Eugene	248	10	123	381	255
Mr. To Shing Chuen	248	10	123	381	255
	744	30	369	1,143	765

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

During the year ended 31 December 2017, certain directors were granted share options, in respect of their services to the Group under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions. The details, including the principal terms and number of options granted, are disclosed in note 34 to the financial statements.

During the year, no emolument was paid by the Group to any of the directors of the Company as an inducement join or upon joining the Group or as compensation for loss of office (2017: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2017: one director), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the four (2017: four) highest paid employees are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**8,653**	8,391
Share based payments	**737**	40
Pension scheme contributions	**325**	313
	9,715	8,744

The number of highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees 2018	2017
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–

11. INCOME TAX

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

	Note	2018 HK$'000	2017 HK$'000
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
		2,003	4,345
Deferred tax	31	**(14)**	(116)
		1,989	4,229

11. INCOME TAX *(Continued)*

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents: *(Continued)*

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 Profits 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.*, "**Sigmatrix**"), 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%.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2018 HK$'000	2017 HK$'000
Loss before tax	**(251,974)**	(248,987)
Tax at applicable statutory tax rate	**(38,694)**	(40,194)
Income from offshore manufacturing operation not subject to tax	**–**	(755)
Hong Kong statutory tax concession	**(165)**	–
Profit attributable to a joint venture	**(3)**	(493)
Profit attributable to an associate	**(1,200)**	–
Income not subject to tax	**(5,362)**	(9,531)
Expenses not deductible for tax	**22,855**	44,482
Tax losses not recognised	**24,558**	10,630
Under-provision in respect of previous year	**–**	90
Income tax expense	**1,989**	4,229

* *For identification purpose only*

12. DIVIDEND

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

13. 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:

	2018 **HK$'000**	2017 HK$'000
Loss for the year attributable to equity shareholders of the Company	**(253,877)**	(245,226)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**9,797,311**	9,797,311

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 bond and the exercise of share options since their assumed exercise would result in a decrease in loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Construction in progress HK$'000	Total HK$'000
Cost									
At 1 January 2017		4,083	1,182	8,277	5,459	13,972	652	14,888	48,513
Additions		–	2,452	32,234	–	1,123	–	5,859	41,668
Acquisition of subsidiaries	35	–	–	437	–	11,344	–	244	12,025
Reclassified as non-current asset held for sale	25	(4,083)	–	–	–	–	–	–	(4,083)
Disposals		–	(18)	(3,343)	(230)	(7,763)	(652)	–	(12,006)
Transfer		–	–	2,506	–	17,358	–	(19,864)	–
Exchange realigment		–	138	1,066	63	1,432	–	541	3,240
As at 31 December 2017 and 1 January 2018		–	3,754	41,177	5,292	37,466	–	1,668	89,357
Additions		–	–	22,742	–	5,829	–	7,554	36,125
Disposal		–	–	(250)	–	(6,210)	–	(2,104)	(8,564)
Written off		–	(732)	–	–	(1,699)	–	–	(2,431)
Transfer		–	–	852	–	1,316	–	(2,168)	–
Exchange realigment		–	(141)	(2,815)	(46)	(1,785)	–	(242)	(5,029)
At 31 December 2018		–	2,881	61,706	5,246	34,917	–	4,708	109,458
Accumulated depreciation and impairment									
At 1 January 2017		1,881	280	6,335	3,359	8,037	646	–	20,538
Depreciation provided for the year		86	976	3,970	881	3,031	6	–	8,950
Reclassified as non-current asset held for sale	25	(1,967)	–	–	–	–	–	–	(1,967)
Written back on disposals		–	(18)	(1,467)	(230)	(6,926)	(652)	–	(9,293)
Exchange realigment		–	87	209	29	133	–	–	458
As at 31 December 2017 and 1 January 2018		–	1,325	9,047	4,039	4,275	–	–	18,686
Depreciation provided for the year		–	963	12,847	635	6,224	–	–	20,669
Written back on disposals		–	–	(212)	–	(1,153)	–	–	(1,365)
Written off		–	(732)	–	–	(1,699)	–	–	(2,431)
Impairment		–	–	40,718	–	–	–	–	40,718
Exchange realigment		–	(79)	(2,865)	(36)	(262)	–	–	(3,242)
At 31 December 2018		–	1,477	59,535	4,638	7,385	–	–	73,035
Carrying amount									
At 31 December 2018		–	1,404	2,171	608	27,532	–	4,708	36,423
At 31 December 2017		–	2,429	32,130	1,253	33,191	–	1,668	70,671

Note: As at 31 December 2017, included in furniture, fixture and equipment were amount of HK$2,587,000 held under finance lease.

The Group reviewed the economic environment and market conditions of the certain cities the retailers management system of QR code business is operating during the year, and assessed the carrying amount of those equipment related to retailers management system (classified under furniture, fixtures and equipment). Accordingly, the carrying amount of such equipment was fully impaired and an impairment loss of HK$40,718,000, which was determined by its recoverable amount based on its fair value less cost of disposal and was fully recognised in the consolidated statement of profit or loss and other comprehensive income during the year.

15. INTANGIBLE ASSETS

	Patent HK$'000	Development costs HK$'000	Total HK$'000
Cost			
At 1 January 2017	2,649	–	2,649
Additions	–	13,398	13,398
Exchange realignment	328	–	328
At 31 December 2017 and 1 January 2018	2,977	13,398	16,375
Additions	–	8,862	8,862
Exchange realignment	(118)	(1,103)	(1,221)
At 31 December 2018	2,859	21,157	24,016
Accumulated amortisation			
At 1 January 2017	132	–	132
Provided for the year	435	–	435
At 31 December 2017 and 1 January 2018	567	–	567
Provided for the year	411	7,427	7,838
Exchange realignment	(68)	(375)	(443)
At 31 December 2018	910	7,052	7,962
Carrying amount			
At 31 December 2018	1,949	14,105	16,054
At 31 December 2017	2,410	13,398	15,808

The development costs are internally generated for the QR code business.

16. GOODWILL

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

16. GOODWILL *(Continued)*

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 (note 35) 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 presented in note 4.

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

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 was calculated based on value in use method amounted to HK$161,850,000 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.

16. GOODWILL *(Continued)*

For the year ended 31 December 2017 *(Continued)*

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.

17. INTERESTS IN A JOINT VENTURE/AN ASSOCIATE

(a) Interests in a joint venture

	2018 **HK$'000**	2017 HK$'000
At beginning of the year	**141,549**	136,026
Gain on dilution of interest in a joint venture	**–**	2,533
Share of profit for the year	**19**	2,990
Reclassified as an associate	**(141,568)**	–
Share of net assets	**–**	141,549

(b) Interests in an associate

	2018 **HK$'000**	2017 HK$'000
At beginning of the year	**–**	–
Reclassified from a joint venture	**141,568**	–
Share of profit for the year	**7,276**	–
Share of net assets	**148,844**	–

17. INTERESTS IN A JOINT VENTURE/AN ASSOCIATE *(Continued)*

(c) Particulars of joint venture/associate

Particulars of the Group's interest in an associate as at 31 December 2018 (2017: joint venture) is as follows:

Name	Particulars of issued shares held	Place of incorporation and business	Percentage of ownership interest	Percentage of voting power	Percentage of profit sharing	Principal activities
FreeOpt Holdings Limited ("FreeOpt")	Ordinary share without par value	Republic of Marshall Islands/ Hong Kong	31.38% (2017: 31.38%)	31.38% (2017: 31.38%)	31.38% (2017: 31.38%)	Investment holding and money lending

On 30 December 2015, Marvel Galaxy Limited ("MGL") (an indirect wholly-owned subsidiary of the Company) entered into a joint venture agreement with Freeman Financial Investment Corporation ("FFIC") (a wholly-owned subsidiary of Freeman Financial Corporation Limited), pursuant to which MGL and FFIC conditionally agreed to cooperate to set-up the joint venture to carry out business of provision of financial services and money lending by contributing HK$150 million each to the initial share capital of the joint venture so that MGL and FFIC will each hold 50% equity interest in the joint venture. Further details of the joint venture contribution were disclosed in the announcement of the Company dated 30 December 2015. The Group's capital contribution of HK$150,000,000 was made on 5 January 2016.

Thereafter, during the year ended 31 December 2016, FreeOpt effected an increase in registered capital whereby FFIC and certain independent third party new investors ("2016 Investors") injected additional capital to FreeOpt amounting to HK$83,000,000 in aggregate. As a result of such increase in registered capital, the Group's equity interest in FreeOpt was diluted from 50% to 39.16% and a gain on dilution of interest in a joint venture of HK$1,076,000 was recognised during the year ended 31 December 2016.

During the year ended 31 December 2017, FreeOpt effected an increase in registered capital whereby an independent third party new investor ("2017 Investor") injected HK$95,000,000 to FreeOpt. As a result, the Group's interest in FreeOpt was further diluted to 31.38% and a gain on dilution of interest in a joint venture amounting to HK$2,533,000 was recognised during the year ended 31 December 2017. Despite the dilution in equity interest, the Group was still able to exert joint control over relevant activities of FreeOpt. Accordingly, the Group continues to account for such investment as a joint venture.

On 4 October 2018, the Group entered into a termination of joint venture agreement with FFIC, 2016 Investors and 2017 Investor to cease the joint venture relationship without changing their respective shareholdings in FreeOpt. Thereafter, the shareholders exercise their voting rights in the shareholder meeting, which is the highest decision-making body of FreeOpt, in proportion to their shareholdings. Therefore, FreeOpt has then become the Group's associate from 4 October 2018 as in the opinion of the directors of the Company, the Group has significant influence over FreeOpt.

17. INTERESTS IN A JOINT VENTURE/AN ASSOCIATE *(Continued)*

The following table illustrates the summarised financial information, extracted from the management accounts of FreeOpt, reconciled to the carrying amount in the consolidated financial statements.

Summarised consolidated statement of financial position

	31 December 2018 accounted for as an associate HK$'000	31 December 2017 accounted for as a joint venture HK$'000
Current assets		
Listed investments at FVTPL	**157,000**	–
Loan receivables	**338,000**	446,500
Loan interest receivable	**4,312**	8,939
Prepayments	**47**	68
Tax prepaid	**801**	–
Cash and cash equivalents	**1,026**	4,142
	501,186	459,649
Current liabilities		
Other payables	**(26,858)**	(4,629)
Tax payable	**–**	(3,940)
	(26,858)	(8,569)
Net assets	**474,328**	451,080
Equity		
Share capital	**478,000**	478,000
Accumulated reserves	**(3,672)**	(26,920)
Total equity	**474,328**	451,080

Summarised consolidated statement of comprehensive income

	2018 HK$'000	2017 HK$'000
Revenue	**10,449**	21,322
Other income	**1,466**	606
Fair value gain on investment at fair value through profit or loss	**16,492**	–
Finance costs	**(3,596)**	–
Administrative expenses	**(893)**	(8,802)
Profit before tax	**23,918**	13,126
Income tax	**(670)**	(4,405)
Profit and total comprehensive income for the year	**23,248**	8,721

17. INTERESTS IN A JOINT VENTURE/AN ASSOCIATE *(Continued)*

Reconciliation summarised financial statements

Reconciliation of the summarised financial information presented to the carrying amount of its interests in an associate/a joint venture.

	2018 accounted for as an associate HK$'000	2017 accounted for as a joint venture HK$'000
Opening net assets as at 1 January	**451,080**	347,359
Capital injection by other shareholders of FreeOpt	**–**	95,000
Profit and total comprehensive income for the year	**23,248**	8,721
Closing net assets as at 31 December	**474,328**	451,080
Percentage of the Group's interest in FreeOpt	**31.38%**	31.38%
Carrying value as at 31 December	**148,844**	141,549

The Group has no contingent liabilities in relation to its interest in FreeOpt.

18. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	**2018 HK$'000**	2017 HK$'000
Unlisted equity investments, at cost			
Company A	(i)	**–**	67,397
Company B	(ii)	**–**	11,329
Win Wind Capital Limited ("Win Wind")	(iii)	**–**	279,297
Company C	(iv)	**–**	53,217
		–	411,240

Notes:

The amount 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.

In 2017, 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. Company A, Company B, Win Wind and Company C are engaged in the provision of advisory and financial services, property holding, investment in securities trading and money lending.

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

18. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Notes: *(Continued)*

(i) As at 31 December 2017, the Group had shareholding of 2.69% and the carrying amount of the investment is approximately HK$67,397,000. In the opinion of the directors of the Company, no impairment is considered necessary as at 31 December 2017.

(ii) As at 31 December 2017, the Group owned approximately 2.95% of the issued share capital of Company B. The management of the Company performed impairment assessment of investment in Company B as at 31 December 2017 by reference to the carrying amount of net assets of Company B which are mainly available-for-sale investments. Due to significant reduction in net assets of Company B, an impairment loss of approximately HK$34,834,000 was recognised for the year ended 31 December 2017.

(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 the Company's announcement dated 25 January 2018. The promissory note bears zero interest rate and repayable in June 2019, and considering the net present value of the promissory note of HK$279,297,000 calculated by using a discount rate of 10% , and concluded that the fair value of the investments is lower than the carrying amount of investment and an impairment loss of HK$37,334,000 was recognised for the year ended 31 December 2017.

(iv) During the year ended 31 December 2017, following the distribution in specie by an investee of Company B of the shares of Company C (the "Distribution Share"), Company B has declared distribution in specie of the Distribution Share to its shareholder on a pro-rata basis. One of the shareholders of Company B decided not to participate in the distribution and its entitlement has been taken up by the other shareholders. As a result, the Company is entitled to hold 9,108,328 shares or 0.75% of the total issued share capital of Company C.

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

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

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. Details of the fair value measurement are disclosed in note 41.

(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 23.

(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.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Prepayments	**5,628**	18,118	18,118
Deposits	**5,709**	6,264	6,264
Other receivables	**4,803**	9,581	9,307
	16,140	33,963	33,689
Less: Prepayments classified as non-current assets	**–**	(8,772)	(8,772)
Current portion	**16,140**	25,191	24,917

21. INVENTORIES

	Note	31 December 2018 HK$'000	1 January 2018 (note (i)) HK$'000	31 December 2017 (note (i)) HK$'000
Raw materials		**6,068**	5,270	5,270
Work in progress	(ii)	**8,877**	8,223	6,723
Finished goods		**20,652**	10,558	10,558
		35,597	24,051	22,551

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balances at 1 January 2018. Comparative information has not been restated.

(ii) Upon the adoption of HKFRS 15, opening adjustments were made on the carrying amount of inventories as at 1 January 2018, details are set out in note 2(b)(ii).

22. TRADE AND BILLS RECEIVABLES

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Trade and bills receivables	**63,145**	70,053	75,251
Less: Impairment loss allowance (note 42(b))	**(1,341)**	–	–
	61,804	70,053	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 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.

22. TRADE AND BILLS RECEIVABLES *(Continued)*

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:

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

Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 42(b).

23. NOTE RECEIVABLE

During the year ended 31 December 2018, the Group has disposed of the entire equity interest of a financial asset at FVTPL, Win Wind, which was satisfied by a promissory note issued by an independent third party 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 beneficial interest in Win Wind upon completion of the disposal on 24 July 2018. The difference of HK$5,857,000 between the fair value of the promissory note received as consideration and the carrying amount of Win Wind 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.

24. CASH AND CASH EQUIVALENTS, RESTRICTED DEPOSITS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**97,513**	348,655

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$45,730,000 (2017: HK$63,605,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Included in cash and bank balance were HK$1,127,000 (2017: HK$12,986,000) of short-term highly liquid investments that was readily convertible into known amount of cash.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

(b) Restricted deposits

Pursuant to the term of the convertible bond issued by the Company in November 2017 with more details set out in note 29, the Company is required to maintain at the designated bank account at all times until the maturity date of the convertible bond (as defined in note 29) an amount of not less than US$1.4 million (equivalent to HK$10,920,000), which represented the six-month interest on the convertible bond required to be paid by the Company pursuant to the terms of the convertible bond. Such amount of HK$10,928,000 (2017: HK$10,920,000) were classified as restricted deposit.

24. CASH AND CASH EQUIVALENTS, RESTRICTED DEPOSITS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's major liabilities arising from financing activities, including both cash and non-cash changes.

	Debt component of the convertible bond (Note 29) HK$'000	Obligations under finance lease (Note 30) HK$'000	Derivative embedded in the convertible bond (Note 29) HK$'000	Total HK$'000
At 1 January 2018	298,558	2,341	1,827	302,726
Financing cash flow				
Finance lease repayment	–	(2,341)	–	(2,341)
Early redemption of CB	(105,836)	–	–	(105,836)
	(105,836)	(2,341)	–	(108,177)
Changes in fair values	–	–	1,313	1,313
Other changes				
Interest expenses	41,187	620	–	41,807
Interest paid	(18,291)	(620)	–	(18,911)
Loss on early redemption of CB	3,843	–	–	3,843
	26,739	–	–	26,739
At 31 December 2018	219,461	–	3,140	222,601

24. CASH AND CASH EQUIVALENTS, RESTRICTED DEPOSITS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities *(Continued)*

	Interest-bearing other borrowings HK$'000	Debt component of the convertible bond (Note 29) HK$'000	Obligations under finance lease (Note 30) HK$'000	Derivative embedded in the convertible bond (Note 29) HK$'000	Total HK$'000
At 1 January 2017	12,022	–	–	–	12,022
Financing cash flow					
Repayment of borrowings	(12,022)	–	–	–	(12,022)
Issuance cost of convertible bond	–	(2,561)	–	–	(2,561)
Proceeds from issue of convertible bond	–	295,658	–	16,342	312,000
Finance lease repayment	–	–	(732)	–	(732)
	(12,022)	293,097	(732)	16,342	296,685
Changes in fair values	–	–	–	(14,515)	(14,515)
Other changes					
New finance leases	–	–	3,073	–	3,073
Interest expenses	156	5,461	76	–	5,693
Interest paid	(156)	–	(76)	–	(232)
	–	5,461	3,073	–	8,534
At 31 December 2017	–	298,558	2,341	1,827	302,726

(d) Significant non-cash transaction

As disclosed in note 23, the consideration for the disposal of Win Wind, a financial asset at FVTPL, was satisfied by the issuance of promissory note of the Purchaser.

25. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 21 December 2017, Qualipak Manufacturing Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to dispose of the Group's entire equity interest in Qualipak Production Inc. ("QPI"), a company incorporated in the British Virgin Islands, which is principally engaged in the holding of a property located in the PRC at a consideration of HK$3,000,000. The transaction was completed on 2 January 2018. The net cash inflow after deducting relevant legal expenses was HK$2,827,000. The asset of QPI as at 31 December 2017 was classified as non-current assets held for sale and as follows:

	2017 HK$'000
Asset	
Land and buildings (note 14)	2,116
Non-current assets classified as held for sale	2,116

26. 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 HK$'000	2017 HK$'000
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
	42,121	47,795

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

27. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018 (notes (i) and (ii)) HK$'000	31 December 2017 (note (i)) HK$'000
Contract liabilities			
Billings in advance of performance			
— Made-to-order software development	**14,568**	3,932	–
— Packaging products	**14,315**	6,081	–
	28,883	10,013	–

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, these amounts were reclassified from "Other payables and accruals" (note 28) to contract liabilities.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Sales of QR code related equipment

The Group typically receives a deposit on acceptance of the customers' order. The amount of deposits on acceptance of orders is assessed on a case by case basis before work commences.

The remainder of the consideration is payable on the earlier of the delivery of the finished goods and notice from the customer to cancel the order.

When the Group receives a deposit before the Group's relevant activity commences, this will give rise to contract liabilities at the start of a contract until the revenue is recognised.

27. CONTRACT LIABILITIES *(Continued)*

Made-to-order software development service

The Group receives upfront deposit or initial payments from customers before the development activity commences according to the stage payment schedules in the contract. The upfront deposit or initial payments on acceptance of orders is assessed on a case by case basis before work commences. The amount received from customers gave rise to contract liabilities until revenue is recognised when the performance obligation is satisfied.

Packaging products

The Group receives payments from new customers on acceptance of new order. The remainder of the consideration is payable on the earlier of the delivery of the finished goods and the notice from the customer to cancel the order. If the customer cancels the order, then the Group is immediately entitled to receive payment for work done to date.

Movements in contract liabilities

	2018 HK$'000
At 1 January	**10,013**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(10,013)**
Increase in contract liabilities as a result of billing in advance	**20,649**
Increase in contract liabilities as a result of receiving forward sales deposits during the year	**8,234**
At 31 December	**28,883**

The amount of billings in advance of performance and forward sales deposits and instalments received are expected to be recognised as income within one year.

28. OTHER PAYABLES AND ACCRUALS

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Deposits received	**154**	3,489	13,502
Other payables	**2,439**	6,996	6,996
Accruals	**15,290**	15,386	15,386
	17,883	25,871	35,884

Other payables and accruals are non-interest-bearing and are normally settled within three months.

29. 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 ("CB") in the aggregate principal amount of US$40,000,000 (equivalent to HK$312,000,000). The net proceeds from the issue of the CB of approximately US$39,671,000 (equivalent to HK$309,439,000) will be used for development of the business operations of 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co. Ltd.*) ("SHTY"), a subsidiary of the Company, in particular, Touyun Retailers Management System, and for other general corporate purposes. The CB Agreement was completed on 10 November 2017 (the "Issue Date").

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

(i) the revenue for the six months ending 30 June 2019 as shown in the unaudited consolidated accounts of SHTY shall be not less than RMB500 million; and

(ii) the total debt of SHTY as at 30 June 2019 as shown in its unaudited consolidated accounts for the year ended 30 June 2019 shall not be more than 40% of its total assets.

The initial conversion price is HK$0.492 per share, subject to anit-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.

29. CONVERTIBLE BOND *(Continued)*

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 convertible bond 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 convertible bond. Upon completion of the redemption, the outstanding principal amount of the convertible bond is US$27.0 million.

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 demand immediate repayment of the CB within 3 months from the date of the notice served. Hence, the CB in principal amount of 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.

The movement of the components of the convertible bond 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-accelerated interest due to breach of financial covenants	**5,641**	**–**	**5,641**	–	–	–
Finance cost-interest paid	**(18,291)**	**–**	**(18,291)**	–	–	–
Early redemption (including payment interest accrued)	**(105,836)**	**–**	**(105,836)**	–	–	–
Finance cost-interest charge	**35,546**	**–**	**35,546**	5,461	–	5,461
Loss on early 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	**219,461**	**3,140**	**222,601**	298,558	1,827	300,385
Classified as:						
Current liability	**219,461**	**3,140**		–	1,827	
Non-Current liability	**–**	**–**		298,558	–	
	219,461	**3,140**		298,558	1,827	

30. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2018 and 2017, the Group had 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
	–	**–**	2,341	2,474
Less: future finance charges		**–**		(133)
Presented value of lease obligations		**–**		2,341

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

31. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Note	**Depreciation allowance in excess of related depreciation** HK$'000
At 1 January 2017		172
Credited to profit or loss during the year	11	(116)
At 31 December 2017 and 1 January 2018		**56**
Credited to profit or loss during the year	11	**(14)**
At 31 December 2018		**42**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in PRC in respect of earnings generated from 1 January 2008.

At 31 December 2018 and 2017, no deferred tax liabilities has been recognised for withholding taxes as the Group's subsidiaries established in PRC do not have any unremitted retained earnings as at 31 December 2018 and 2017.

31. DEFERRED TAX LIABILITIES *(Continued)*

The Group had tax losses arising in Hong Kong of HK$368,941,000 (2017: HK$368,073,000) (subject to agreement by the Inland Revenue Department) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in the PRC of HK$222,836,000 (2017: HK$63,791,000) that will expire in one to five years for offsetting against future taxable profits. No deferred tax assets have been recognised in respect of tax losses for the year ended 31 December 2018 (2017: Nil) as it is not considered probable that there would be sufficient future taxable profits to utilise such tax losses.

32. SHARE CAPITAL

	2018 HK$'000	2017 HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
9,797,311,301 ordinary shares of HK$0.01 each	**97,973**	97,973

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(a) Share premium

The application of share premium account is governed by section 40 of the Companies Act 1981 of Bermuda.

(b) Capital reserve

The Group's capital reserve represents the deemed capital contribution from the then controlling shareholder pursuant to the reorganisation in 2012.

(c) Contributed surplus

The contributed surplus of the Group represents the capital contributions from the equity holders of the subsidiaries now comprising the Group before the completion of the reorganisation in 2012 and the par value of the Company's shares issued to the then controlling shareholder for the acquisition of a subsidiary pursuant to the reorganisation.

(d) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire after the vesting period.

34. 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 on 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 associate, 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 associate, 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.

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.

34. SHARE OPTION SCHEME *(Continued)*

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

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 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

34. SHARE OPTION SCHEME *(Continued)*

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.

35. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2017

On 27 March 2017, the Group acquired entire interest in Sigmatrix at a cash consideration of RMB55,000,000 (equivalent to approximately HK$62,210,500) from an independent third party. Sigmatrix is principally engaged in the technological development, marketing, research and development of the QR codes packaging business in the PRC.

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

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

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

The fair value and the gross contractual amount of acquired trade and bill receivables is HK$5,797,000.

35. ACQUISITION OF SUBSIDIARIES *(Continued)*

Goodwill arising on acquisition

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

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

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

If the acquisition of Sigmatrix had occurred on 1 January 2017, the Group's revenue (excluding fair value losses on financial assets at fair value through profit or loss) and loss for the year would have been HK$401,719,000 and HK$258,650,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had an acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

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

	Total HK$'000
Cash consideration	(62,210)
Cash and cash equivalents acquired	6,098
Net outflow of cash and cash equivalents included in cash flows from investing activities	(56,112)

36. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

For the year ended 31 December 2017

On 26 December 2017, the non-controlling shareholder of 北京透雲創合廣告有限公司 ("BJTY", a non-wholly owned subsidiary of the Group), who holds 20% of the registered capital of BJTY, has entered into an agreement with SHTY, the holding company of BJTY, for which the non-controlling shareholder has forfeited his entire equity interest and relevant shareholders' right of BJTY. Pursuant to such agreement, the non-controlling shareholder is not required to pay the unpaid share capital and is not required to make up the losses incurred by BJTY. The carrying amount of the non-controlling interest of BJTY as at the agreement date was a deficit of HK$39,000. The Group recognised an increase in non-controlling interest and a decrease in equity attributable to owners of the Company of HK$39,000.

37. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

(a) Key management compensation

During both years, compensation of key management personnel represents directors' remuneration and those of senior staff as stated in notes 9 and 10 respectively.

(b) Other related party transactions

		Transaction amount	
		2018	2017
Relationship	**Type of transaction**	**HK$'000**	HK$'000
A company controlled by a director of the Company	Purchase of goods	**654**	1,314

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.

(c) Outstanding balance

The following balances are outstanding at the end of the reporting period in relation to transactions with a related party:

	2018	2017
	HK$'000	HK$'000
Current trade payables		
A company controlled by a director of the Company	**1,099**	1,349

38. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office premises, manufacturing plants and car parks under operating lease arrangements. The leases for the office premises are negotiated for a term of two to three (2017: two to five) years, and those for the manufacturing plants and car parks are negotiated for a term of one year.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**10,631**	8,192
In the second to fifth years, inclusive	**7,287**	14,496
	17,918	22,688

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**300**	13,871

40. FINANCIAL INSTRUMENTS BY CATEGORY AND FAIR VALUE OF FINANCIAL INSTRUMENTS

As at 31 December 2018, except for financial assets at fair value through profit or loss as set out in note 19, financial assets of the Company and the Group are measured at amortised cost (2017: loan and receivables).

As at 31 December 2018 and 2017, except for derivative embedded in the CB as set out in note 29, financial liabilities of the Company and the Group are measured at amortised cost.

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, note receivable, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and convertible bonds, approximate to their carrying amounts largely due to the short term maturities of these 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.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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 as at 31 December 2018 and 2017 classified as financial assets at fair value through profit or loss are based on quoted market prices as at 31 December 2018 and 2017.

The fair value of the one of the unlisted equity securities without an active market classified in Level 3 amounting to HK$34,521,000 was determined by the management based on the valuation from an independent professional qualified valuer. The fair value of another one of the unlisted equity securities amounting to HK$54,383,000 was determined by the directors. The fair value of these two unlisted equity securities are estimated by a number of significant unobservable inputs including the market value of invested capital-to-total assets multiple, price-to-net assets multiple and adjustment for a lack of marketability associated with the investments.

The fair value of the remaining unlisted equity securities were determined by the directors. The fair value of such securities is estimated on the basis of an analysis of the investee's financial position and results, risk profile and prospects and other factors.

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.

Fair value hierarchy

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

As at 31 December 2018

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets at fair value through profit or loss:				
Listed equity instruments	24,250	–	–	24,250
Unlisted equity instruments	–	–	243,009	243,009
Financial liabilities				
Derivative embedded in the CB	–	–	3,140	3,140

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

Fair value hierarchy *(Continued)*

As at 31 December 2017

Assets measured at fair value:

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

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 31 December 2018 and 2017:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Unlisted equity instruments	Adjusted net asset value	The fair value of net assets of the investee	N/A	1% increase in fair value of net assets would result in increase fair value by HK$1,541,000 (2017: Nil)
	Market approach adopted. The value is based on market value of invested capital-to-total asset and price-to-net assets	Market value of invested capital-to-total asset multiple	0.35 to 0.45 (2017: Nil)	1% increase in market value of invested capital-to-total asset multiple would result in increase fair value by HK$560,000 (2017: Nil)
		Price-to-net assets multiple	0.42 to 0.45 (2017: Nil)	1% increase in price-to-net assets multiple would result in increase fair value by HK$481,000 (2017: Nil)
		Lack of marketability discount	10% to 20% (2017: Nil)	1% increase in lack of marketability discount would result in decrease fair value by HK$146,000 (2017: Nil)
Derivative embedded in the CB	Binomial tree option pricing model	Risk free rate	2.56% (2017: 1.862% to 1.958%)	1% increase in risk-free rate would result in decrease in fair value by HK$Nil* (2017: HK$281,000)
		Expected volatility	106.38% (2017: 52.29%)	10% increase in volatility would result in increase in fair value by HK$Nil* (2017: HK$1,441,000)

* The sensitivity impact is less than HK$1,000.

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

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

	Assets Unlisted equity instruments HK$'000	**Liabilities** Derivatives embedded in the CB HK$'000
At 1 January 2017	–	–
Issuance of the CB	–	(16,342)
Net gains from fair value adjustment recognised in profit or loss	–	14,515
At 31 December 2017	–	(1,827)
Initial application of HKFRS 9	420,754	–
At 1 January 2018	420,754	(1,827)
Acquisitions	120,200	–
Disposals	(285,154)	–
Net loss from fair value adjustment recognised in profit or loss	(12,791)	(1,313)
At 31 December 2018	243,009	(3,140)

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: None).

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include cash and cash equivalents, trade and bills receivables, deposits and other receivables, financial assets at fair value through profit or loss, note receivable, convertible bond, trade and bills payables and other payables and accruals (2017: also include available-for-sale investments). Details of the major financial instruments and the Group's relevant accounting policies are disclosed in note 2 to the financial statements.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, liquidity risk and equity price risk. The directors review and agree policies for managing each of these risks and they are summarised below.

(a) Foreign currency risk

The Group operates in both Hong Kong and the PRC and sells its products internationally. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily through cash and bank balances arising from sales and purchases, deposits, trade and other receivables, trade and other payables and convertible bonds that are denominated in a currency other than the functional currency of the operations in which they relate. The currencies giving rise to this risk are primarily US$, Swiss Franc ("CHF") and RMB.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of RMB. The appreciation or depreciation of RMB against HK$ may have impact on the operating results of the Group. The Group's exposure to currency risk arising from US$ against HK$ is considered by the directors as insignificant since HK$ is pledged to US$.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Foreign currency risk *(Continued)*

There are limited hedging instruments available to the Group to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. The Group may decide to enter into hedging transactions in the future and management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity to a reasonably possible changes in the exchange rates, with all other variables held constant, of the Group's profit after tax.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit for the year HK$'000
2018		
If HK$ weakens against RMB	**3**	**2**
If HK$ strengthens against RMB	**(3)**	**(2)**
If HK$ weakens against USD	**3**	**692**
If HK$ strengthens against USD	**(3)**	**(692)**
2017		
If HK$ weakens against RMB	3	15
If HK$ strengthens against RMB	(3)	(15)
If HK$ weakens against CHF	3	775
If HK$ strengthens against CHF	(3)	(775)

(b) Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade and other receivable balances are monitored on an ongoing basis to ensure that follow-up action is taken to recover overdue debts and the Group's exposure to bad debts is not significant. The Group's maximum exposures to credit risk are the carrying amounts of trade and bills receivables, as disclosed in note 22 to the consolidated financial statements. In addition, the Group reviews the recoverable amount of each individual debtor at the end of the reporting period to ensure that adequate impairment losses have been made for irrecoverable amounts.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of reporting period, 12% (2017: 24.3%) and 43% (2017: 52.6%) of the total trade and bills receivable were due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade and bills receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade and bills receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	1%	42,902	56
1–30 days past due	2%	12,725	41
31–180 days past due	2%	2,787	4
More than 180 days past due	26%	4,731	1,240
More than 365 days past due	100%	–	–
	2%	63,145	1,341

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, no trade receivables were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	51,534
Less than 30 days past due	16,167
Over 30 days past due	7,550
	75,251

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

Comparative information under HKAS 39 *(Continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	HK$'000
Balance at 1 January 2017	78
Impairment losses recognised during the year	66
Amounts written off during the year	(144)
Balance at 31 December 2017 under HKAS 39 and at 1 January 2018 under HKFRS 9	–
Impairment losses recognised during the year	2,016
Amounts written off during the year	(675)
Balance at 31 December 2018	1,341

The Group has concluded that there is no significant changes in the gross carrying amounts of trade and bills receivables contributed to the increase in loss allowance during 2018.

Credit risk arising from note receivable

Note receivable measured at amortised cost as the credit risk has not increased significantly since initial recognition and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Management consider 'low credit risk' for note receivable when there is a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

During the year ended 31 December 2018, no expected credit loss on note receivable was recognised in the consolidated profit or loss.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Liquidity risk

The Group managed the risk by matching the raising of loans or equity funding to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

As at 31 December 2018, the Group has breached certain financial covenants of the CB as disclosed in note 29 such that the CB Holder has the right to serve written notice to the Company demand immediate repayment of the CB within 3 months from the date of the notice served. The analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the CB Holder was to invoke their right to request immediate repayment.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total HK$'000	Carrying amount HK$'000
At 31 December 2018				
Trade payables	**42,121**	**–**	**42,121**	**42,121**
Other payables and accruals	**17,883**	**–**	**17,883**	**17,883**
Convertible bond (note (i))	**219,461**	**–**	**219,461**	**219,461**
	279,465	**–**	**279,465**	**279,465**

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total HK$'000	Carrying amount HK$'000
At 31 December 2017				
Trade payables	47,795	–	47,795	47,795
Other payables and accruals	35,884	–	35,884	35,884
Obligations under finance lease	1,649	825	2,474	2,341
Convertible bond (note (ii))	21,840	352,373	374,213	298,558
	107,168	353,198	460,366	384,578

Notes:

(i) The contractual undiscounted payment of the CB as at 31 December 2018 represented the Redemption Amount if the CB Holder invokes its right to request immediate repayment.

(ii) The contractual undiscounted payment of the CB as at 31 December 2017 represented payment of interest and principal at the maturity date assuming no conversion is made by the CB holder.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Liquidity risk *(Continued)*

The amounts disclosed in the table are the contractual undiscounted cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

Although the Group has a considerable amount of financial liabilities to be settled within the next twelve month from the end of the reporting period, the directors of the Company are of the view that the Group can manage the associated liquidity risks taking into account the financial resources and the Group's cash flow projections.

(d) Equity price risk

Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as financial assets at fair value through profit or loss (note 19) (2017: available-for-sale investments (note 18), and financial assets at fair value through profit or loss held for trading (note 19)).

The Group's listed equity investments are listed on the Stock Exchange and are valued at quoted market prices at the end of the reporting period.

All of the Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the Group. As at the end of the reporting period the Group is exposed to this risk through the conversion rights attached to the convertible bond issued by the Company as disclosed in note 29.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Equity price risk *(Continued)*

The market equity index for the Stock Exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	31 December 2018	High/low 2018	1 January 2018
Hong Kong — Hang Seng Index	25,846	33,484/24,541	29,919

The Group manages its exposure by closely monitoring the price movements and the changes in market conditions that may affect the value of these equity investments.

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, excluding available-for-sale investments measured at cost less impairment as at 31 December 2017 with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

Sensitivity analysis of equity securities with fair value measured categorised within Level 3 were disclosed in note 41.

	Carrying amount of financial investments HK$'000	Increase/ (decrease) in price %	Increase/ (decrease) in profit after tax and retained profit HK$'000	Increase/ (decrease) in other components of equity HK$'000
2018				
Equity securities listed in Hong Kong:				
Held-for-trading	**24,250**	**36.44%**	**7,379**	**–**
Held-for-trading	**24,250**	**(36.44%)**	**(7,379)**	**–**
2017				
Equity securities listed in Hong Kong:				
Held-for-trading	14,250	38.00%	4,522	–
Held-for-trading	14,250	(38.00%)	(4,522)	–

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders, to procure adequate financial resources from shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a net debt-to-adjusted capital ratio, which is net debt divided, by adjusted capital. Net debt includes trade and bills payables, other payables and accruals and interest-bearing other borrowings, convertible bond, less cash and cash equivalents and excludes assets of a disposal group classified as held for sale and liabilities directly associated with the assets classified as held for sale. Adjusted capital includes equity attributable to owners of the parent and net debt. The net debt-to-adjusted capital ratios as at the end of the reporting periods were as follows:

	Group	
	2018	2017
	HK$'000	HK$'000
Trade payables	**42,121**	47,795
Other payables and accruals	**17,883**	35,884
Convertible bond	**219,461**	298,558
Less: Cash and cash equivalents	**(97,513)**	(348,655)
Net debt	**181,952**	33,582
Equity attributable to owners of the parent	**726,792**	957,342
Adjusted capital	**544,840**	923,760
Net debt-to-adjusted capital ratio	**0.33**	0.04

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries	(a)	**47,890**	223,889
Current assets			
Prepayments and other receivables		**633**	643
Amounts due from subsidiaries	(a)	**843,190**	830,677
Cash and cash equivalents		**26,756**	199,354
Total current assets		**870,579**	1,030,674
Current liabilities			
Other payables and accruals		**612**	946
Derivative under convertible bond		**3,141**	1,827
Convertible bond		**219,461**	–
Amounts due to a subsidiaries		**2**	–
Total current liabilities		**223,216**	2,773
Net current assets		**647,363**	1,027,901
Total assets less current liabilities		**695,253**	1,251,790
Non-current liability			
Convertible bond		**–**	298,558
Net assets		**695,253**	953,232
Equity			
Issued capital		**97,973**	97,973
Reserves	(b)	**597,280**	855,259
Total equity		**695,253**	953,232

Wang Liang
Director

Du Dong
Director

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) During the year ended 31 December 2018, an impairment loss on investments in subsidiaries of HK$175,999,000 (2017: HK$123,179,000) and an impairment loss on amounts due from subsidiaries of HK$26,281,000 (2017: HK$493,430,000) was recognised for the investments in subsidiaries and amounts due from subsidiaries respectively, in view of the decrease in the net assets value of subsidiaries and operating loss of the subsidiaries.

(b) A summary of the Company's reserves is as follows:

	Share premium account HK$'000 (note 33(a))	**Contributed surplus** HK$'000 (note 33(c))	**Share option reserve** HK$'000 (note 33(d))	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2017	1,769,428	13,387	–	(314,066)	1,468,749
Total comprehensive loss for the year	–	–	–	(623,496)	(623,496)
Equity settled share-based transactions	–	–	10,006	–	10,006
At 31 December 2017 and 1 January 2018	1,769,428	13,387	10,006	(937,562)	855,259
Total comprehensive loss for the year	–	–	–	**(273,849)**	**(273,849)**
Equity settled share-based transactions	–	–	**15,870**	**–**	**15,870**
Share option lapsed	–	–	**(665)**	**665**	**–**
At 31 December 2018	**1,769,428**	**13,387**	**25,211**	**(1,210,746)**	**597,280**

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation on 29 December 2011 over the previous nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus in certain circumstances.

44. EVENTS AFTER THE 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.

45. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal Activities
Apex Capital Business Limited	BVI	Ordinary US$100	100 (2017: 100)	–	Investment holding
Era Bright Limited	Hong Kong	Ordinary HK$1	–	100 (2017:100)	Money lending
Genius Spring Limited	BVI/Hong Kong	Ordinary US$999	–	90.1 (2017: 90.1)	Securities investment and trading
Qualipak Development Limited	BVI	Ordinary US$10,000	100 (2017: 100)	–	Investment holding
Qualipak Manufacturing Limited	Hong Kong	Ordinary HK$100 Non-voting deferred HK$22,303,857^	–	100 (2017: 100)	Manufacture and sale of watch boxes, jewellery boxes, eyewear cases, bags and pouches and display units
Joy Forever Limited	Hong Kong	Ordinary HK$1	–	100 (2017: 100)	Provision of corporate management services
Shanghai TY Technology Co. Ltd. *# (上海透雲物聯網科技有限公司)	PRC	Registered RMB600,000,000 and paid up RMB300,691,800 (2017: Registered RMB600,000,000 and paid-up RMB274,042,800)	–	100 (2017: 100)	Provision of QR codes on product packaging and business intelligence IT solutions, and online advertising display services
Sigmatrix Technology Co., Ltd* (信碼互通(北京)科技有限公司)	PRC	Registered and paid-up RMB50,000,000	–	100 (2017: 100)	Provision of QR codes on product packaging
Victor Choice Global Limited	BVI	Ordinary US$100	–	100 (2017: 100)	Investment holding

45. PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

Registered as a wholly-owned foreign enterprise under the PRC law

* Direct translation from the Chinese name which is for identification purposes only

^ The non-voting deferred shares have restricted rights on the distribution of profits, capital and voting

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

FIVE-YEAR FINANCIAL SUMMARY

31 December 2018

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below.

RESULTS

The summary of the consolidated results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, has been extracted from the published audited financial statements.

	Years ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**350,077**	397,947	324,251	285,967	397,040
Fair value loss on financial assets at fair value through profit or loss held for trading, net	**(1,307)**	(80,248)	(361,874)	–	–
(Loss)/profit before tax	**(251,974)**	(248,987)	(1,107,838)	256,263	13,156
Income tax	**(1,989)**	(4,229)	(26)	(1,060)	(1,766)
(Loss)/profit for the year	**(253,963)**	(253,216)	(1,107,864)	255,203	11,390
Loss for the year from discontinued operations:	**–**	–	(55,959)	–	–
(Loss)/profit for the year	**(253,963)**	(253,216)	(1,163,823)	255,203	11,390
Attributable to:					
Owners of the Company	**(253,877)**	(245,226)	(1,150,825)	255,259	10,349
Non-controlling interests	**(86)**	(7,990)	(12,998)	(56)	1,041
	(253,963)	(253,216)	(1,163,823)	255,203	11,390

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,043,704**	1,348,425	1,266,945	1,014,804	345,542
Total liabilities	**(316,456)**	(390,541)	(73,533)	(235,694)	(70,513)
Non-controlling interests	**(456)**	(542)	(8,493)	–	(1,974)
	726,792	957,342	1,184,919	779,110	273,055

The summary of the consolidated results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, has been extracted from the published audited financial statements.