Yuxing InfoTech Investment Holdings Limited
裕 興 科 技 投 資 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)
Stock Code: 8005

Annual Report 2018

* for identification purposes only

Yuxing InfoTech Investment Holdings Limited

2018 Annual Report

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This annual report, for which the directors of Yuxing InfoTech Investment Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company (the "Directors") , having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this annual report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this annual report misleading.

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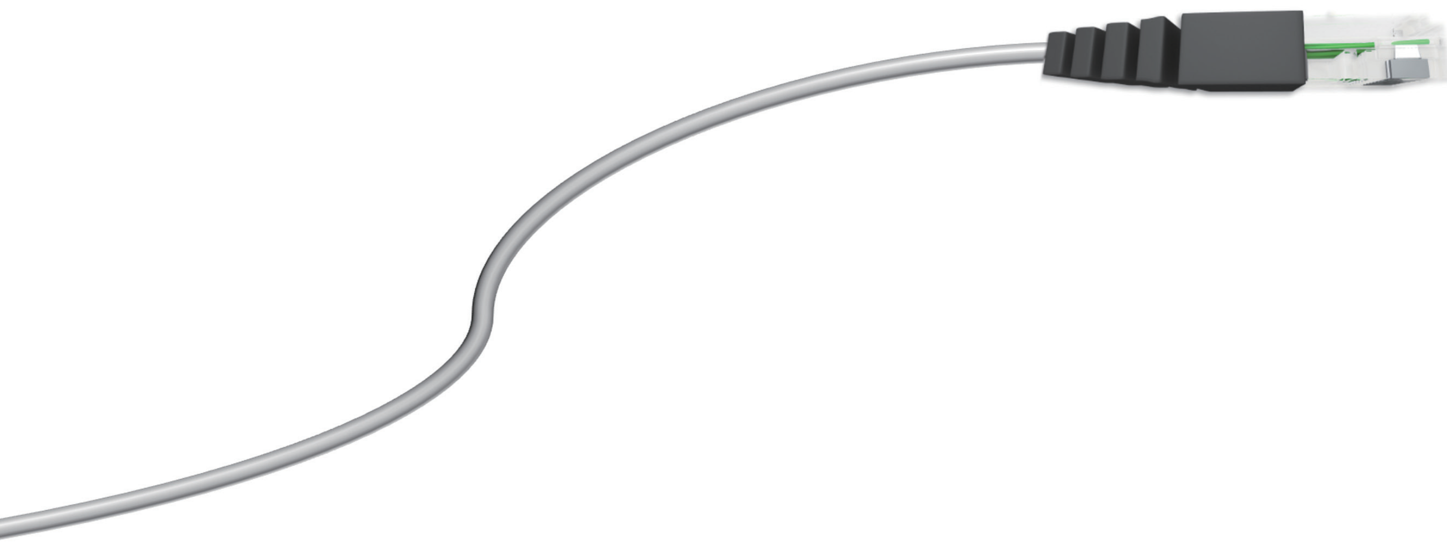
Corporate Profile

Yuxing InfoTech Investment Holdings Limited and its subsidiaries (collectively the "Group") are currently mainly engaged in information home appliances ("IHA"), Internet Data Centre ("IDC"), investing and leasing. The Company was incorporated in Bermuda as an exempted company on 6th October 1999 and was listed on GEM on 31st January 2000.

The Group is a conglomerate which combines commercial enterprise with investments. In terms of commercial business, the Group places the broadband internet digital audio and video products as leading products and focuses on exploring markets for the three businesses of IHA, digital electronic consumable products and original equipment manufacturer, while accommodating comprehensive capabilities, including software and hardware development, mass-scale production, marketing and customer service capabilities, etc. On a global stage, the Group is an outstanding solutions provider and customized product manufacturer in the field of broadband digital audio and video technological products. With respect to IDC business, the establishment of a large IDC in the United States will be an important step towards expanding the global IDC business of the Group and show the determination of the Group to vigorously develop its IDC business. Meanwhile, the Group also concentrates its efforts on providing renowned domestic and foreign enterprises with reliable data centre facilities services and evolve itself into an internationally recognised leading cloud computing enterprise in the era of big data. In terms of investment business, the Group follows the principle of value investment, and persists with the characteristics of sound investment and team work to achieve stable increase in asset value on the basis of retaining value through methods such as financial innovation.



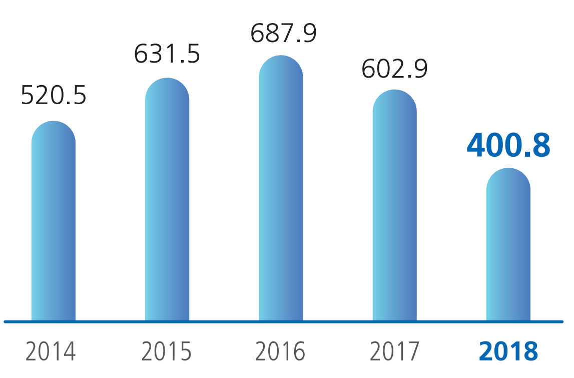
Financial Highlights and Calendar

FINANCIAL HIGHLIGHTS

	2018	2017
	HK$'000	HK$'000
Revenue		
Revenue	**400,843**	602,872
Profitability		
(Loss)/Profit from operations	**(333,138)**	170,081
(Loss)/Profit attributable to owners of the Company	**(397,896)**	94,192
Net worth		
Total equity attributable to owners of the Company	**1,987,932**	2,415,579
	HK$	HK$
Per share		
(Loss)/Earnings per share – Basic	**(0.22)**	0.05
Net assets attributable to owners of the Company per share	**1.10**	1.34

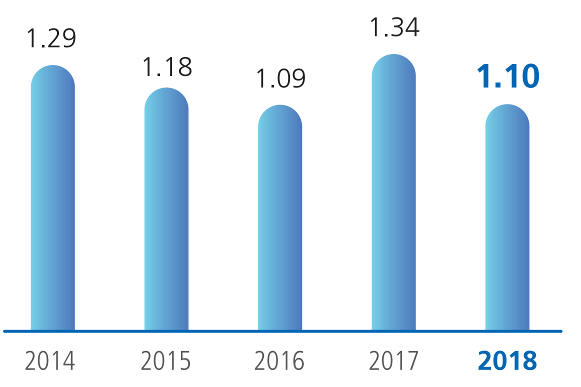
REVENUE

HK$ million



NET ASSETS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE

HK$



FINANCIAL CALENDAR

Results for the year	Announcement on 20th March 2019
Annual report	Despatched to shareholders in late March 2019
Annual general meeting	17th May 2019

BOARD OF DIRECTORS

Executive Directors

Mr. Li Qiang *(Chairman)*
Mr. Gao Fei *(Chief Executive Officer)*
Mr. Shi Guangrong
Mr. Zhu Jiang

Independent Non-Executive Directors

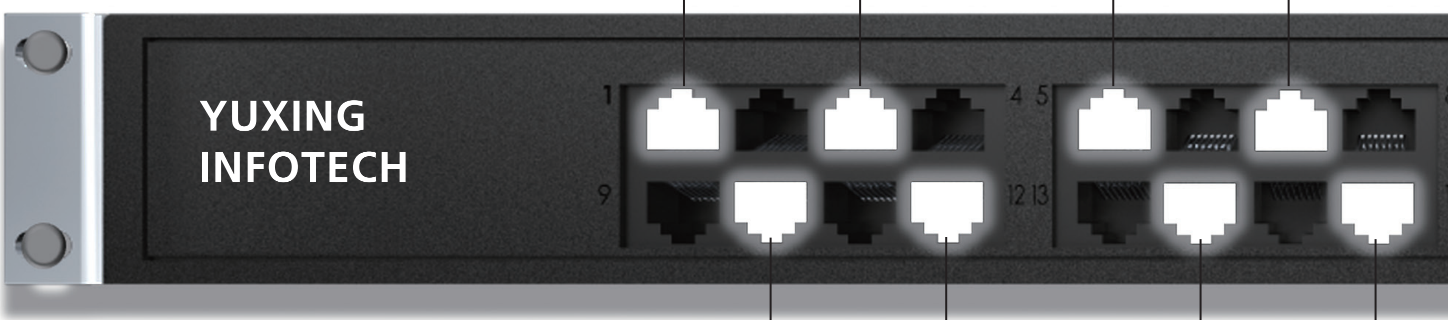
Ms. Shen Yan
Mr. Zhong Pengrong
Ms. Dong Hairong

AUDIT COMMITTEE

Ms. Shen Yan *(Chairlady)*
Mr. Zhong Pengrong
Ms. Dong Hairong

REMUNERATION COMMITTEE

Ms. Shen Yan *(Chairlady)*
Mr. Zhu Jiang
Mr. Zhong Pengrong
Ms. Dong Hairong



COMPANY SECRETARY

Dr. Liu Wei, Solicitor

COMPLIANCE OFFICER

Mr. Shi Guangrong

AUTHORISED REPRESENTATIVES

Mr. Gao Fei
Mr. Shi Guangrong

NOMINATION COMMITTEE

Mr. Li Qiang *(Chairman)*
Ms. Shen Yan
Mr. Zhong Pengrong
Ms. Dong Hairong

AUDITOR

Mazars CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

ABCI Securities Company Limited
China Guangfa Bank Co., Ltd
Industrial and Commercial Bank of China Limited
Shanghai Commercial Bank Limited
UBS AG

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

SHARE REGISTRARS AND TRANSFER OFFICES

Principal
Conyers Corporate Services (Bermuda) Limited
Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

Branch
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong

PLACES OF BUSINESS

Hong Kong
Unit 5-6, 9/F, Enterprise Square Three
No. 39 Wang Chiu Road, Kowloon Bay
Kowloon

The PRC
7th Floor, Block B, Tiancheng Technology Building
No. 2, Xinfeng Street, De Shen Men Wai, Xicheng District
Beijing

Yuxing Industrial Park
Yanjiang Road East
Torch Hi-Tech Industrial Development Zone
Zhongshan

STOCK CODE

8005

WEBSITE ADDRESS

www.yuxing.com.cn

Chairman's Statement

2018 was an extraordinary year full of surprises. The global economy and markets fell short of expectations and capital markets were subject to constant fluctuations. 2018 was also a key year for the transformation and development of the Group. Focusing on the goal of "reducing costs and increasing efficiency", our staff concentrated their efforts and overcame difficulties to lay a secure and solid foundation for the future development of the Group.

In respect of IHA business, relying on accumulation of technological expertise over the years and its self-developed leading intermediary software platform, the Group continued to improve and optimize its products in the face of fierce market competition, and maintained ongoing good cooperative relations with a number of telecommunication operators and system integrators in overseas markets. Throughout the year, the Group reduced production and operating costs through outsourcing of production lines and optimization of human resources to minimise losses to the lowest possible level, endeavouring to achieve a turnaround in 2019.

In respect of IDC business, the Group devoted its efforts to provide renowned domestic and foreign enterprises with safe and reliable data center facilities and services, and evolved itself into an internationally recognized leading cloud computing enterprise in the era of big data. The Building Division of San Jose, United States has decided to issue a building permit to the Group's IDC project in San Jose and entered the main contractor tendering stage. The project is expected to be ready for use in 2019.

IDC is an important carrier of IT infrastructure and cloud computing in the era of big data. In the future, the Group will continue to internationalize its IDC business through new constructions or mergers and acquisitions in core cities and regions to provide targeted, customizable and high value-added services, establish an international cloud computing data center for large enterprises, and provide small and medium-sized enterprises in Greater China with integrated international cloud computing solutions.

We may face a highly uncertain market in 2019. Actions speak louder than words. All our staff will carry forward the spirit of dedication, diligence, passion, and entrepreneurship, focus on the objective and dare to shoulder responsibilities with assiduity and composure so as to provide customers with exquisite products and high-quality services "with the spirit of craftsmanship" and create more value for shareholders and society.

Li Qiang
Chairman

Hong Kong, 20th March 2019

Group Financial Summary

CONSOLIDATED RESULTS

For the year ended 31st December

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	**400,843**	602,872	687,878	631,522	520,541
(Loss)/Profit before tax	**(404,095)**	93,740	52,642	(198,114)	52,742
Income tax credit/(expenses)	**6,199**	452	1,337	8,206	(22,050)
(Loss)/Profit for the year	**(397,896)**	94,192	53,979	(189,908)	30,692
Non-controlling interests	**–**	–	37	1,753	320
(Loss)/Profit attributable to owners of the Company	**(397,896)**	94,192	54,016	(188,155)	31,012

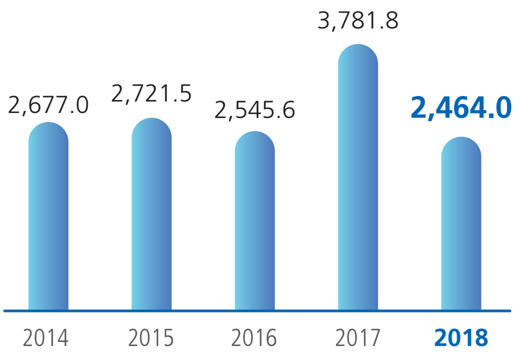
CONSOLIDATED ASSETS AND LIABILITIES

As at 31st December

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Total assets	**2,464,004**	3,781,765	2,545,585	2,721,454	2,677,017
Total liabilities	**(476,072)**	(1,366,186)	(585,712)	(597,662)	(350,323)
Non-controlling interests	**–**	–	(1,036)	(1,073)	(10,786)
Total equity attributable to owners of the Company	**1,987,932**	2,415,579	1,958,837	2,122,719	2,315,908

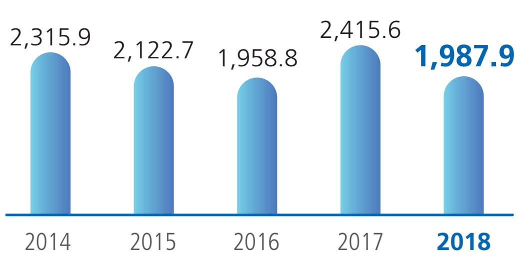
TOTAL ASSETS

HK$ million



TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY

HK$ million



Management Discussion and Analysis

FINANCIAL REVIEW

Revenue and Gross Profit

During the year under review, the Group's overall revenue amounted to approximately HK$400.8 million for the year ended 31st December 2018 (the "Year"), representing a significant decrease of 33.5% as compared with last year. The decrease in revenue is mainly due to the decrease in revenue derived from Hong Kong and the overseas markets as further discussed below. As the Group's Information Home Appliances ("IHA") business recorded significant losses for two consecutive years, the Group has outsourced the production line since the second half of 2018 to reduce production and operating costs. As a result, the overall gross profit margin of the Group improved to 6.9% for the Year (2017: 4.8%).

Operating Results

Other Revenue and Net (Loss)/Income

The Group recognised the other revenue and net loss of approximately HK$239.1 million for the Year (2017: other revenue and net income of approximately HK$288.7 million). Although overall rental income generated from leasing out of investment properties increased to approximately HK$35.8 million (2017: approximately HK$15.6 million), the unsatisfactory performance of the Group's short-term investment portfolio amid the adverse capital market conditions and the first adoption of HKFRS 9 resulted in the Group recognising fair value losses on private investment funds and listed and unlisted equity securities not held for trading (previously classified as available-for-sale financial assets under HKAS 39) during the Year. This caused the Group to record net losses on financial assets/liabilities at fair value through profit or loss of approximately HK$325.3 million for the Year (2017: net gains of approximately HK$49.0 million) even though the Group recognised a gain on derecognition of financial liabilities upon redemption of convertible bonds on the bond maturity date of approximately HK$45.5 million. This was one of the major reasons for the change from a profit last year to a loss attributable to owners of the Company for the Year.

Changes in Fair Value of Investment Properties

The Group recognised net revaluation gains of approximately HK$39.3 million on its investment properties for the Year (2017: approximately HK$1.9 million).

Operating Expenses

With the decrease in the Group's overall revenue, the Group's distribution and selling expenses also decreased to approximately HK$15.4 million for the Year (2017: approximately HK$16.4 million). At the same time, the Group's general and administrative expenses increased by 6.7% to approximately HK$132.0 million for the Year (2017: approximately HK$123.7 million). This increase in general and administrative expenses for the Year was mainly due to the Group's dismissal of part of the production line staffs and related management personnel upon the outsourcing of the production line during the Year, resulting in the payment of severance payment of approximately HK$22.8 million.

Other Operating Expenses

Other operating expenses of the Group increased to approximately HK$13.7 million for the Year (2017: approximately HK$9.4 million). This increase was as a main result of the Group recognising an impairment loss on trade and other receivables of approximately HK$8.7 million for the Year (2017: HK$Nil).

FINANCIAL REVIEW *(Continued)*

Operating Results *(Continued)*

Finance Costs

The Group repaid certain term loans during the Year which caused the finance costs of the Group to decrease to approximately HK$71.0 million for the Year (2017: approximately HK$76.3 million).

Loss for the Year

As a result of the foregoing, the Group recorded a loss attributable to owners of the Company of approximately HK$397.9 million for the Year (2017: profit attributable to owners of the Company of approximately HK$94.2 million).

Liquidity and Financial Resources

As at 31st December 2018, the Group had net current assets of approximately HK$966.9 million. The Group had cash and bank balances and pledged bank deposits of approximately HK$172.5 million and HK$254.7 million respectively. The Group's financial resources were funded mainly by bank and other loans and its shareholders' funds. As at 31st December 2018, the Group's current ratio, as calculated by dividing current assets by current liabilities, was 3.2 times and the gearing ratio, as measured by total liabilities divided by total equity, was 23.9%. Hence, as at 31st December 2018, the overall financial and liquidity positions of the Group remained at a stable and healthy level.

Charges on Group Assets

Details of charges on the Group assets are set out in note 33 to the consolidated financial statements.

Funding

Fundraising Activities

Issue of Convertible Bonds

On 26th May 2017, the Company entered into a subscription agreement with Cloud Empire Investments Limited ("Cloud Empire") as the subscriber in relation to the issue of convertible bonds in principal amount of HK$504.0 million (the "Convertible Bonds"). On 20th June 2017 (the "Bond Issue Date"), the Company issued the Convertible Bonds to Cloud Empire. The Convertible Bonds bear interest at the rate of 6% per annum. Such interest was accrued on the outstanding principal amount of the Convertible Bonds and would only be payable by the Company to Cloud Empire once every six months from the Bond Issue Date if the Convertible Bonds were neither converted during the conversion period nor redeemed prior to 20th June 2018 (the "Bond Maturity Date").

The Convertible Bonds may be converted into ordinary shares of the Company at an initial conversion price of HK$1.4 per share (subject to adjustments) for a maximum number of 360,000,000 conversion shares. The market price of the shares of the Company ("Shares") was HK$0.97 and HK$1.02 as at 26th May 2017 and 20th June 2017 respectively. The conversion period commenced from the 180th day after the Bond Issue Date and ends on the five business days prior to the Bond Maturity Date. The net proceeds from the issue of the Convertible Bonds net of issue cost amounted to approximately HK$500.2 million.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Funding *(Continued)*

Fundraising Activities (Continued)

Issue of Convertible Bonds *(Continued)*

On Bond Maturity Date, the Company redeemed all of the 6% Convertible Bonds at the redemption price equal to the outstanding principal amount of HK$504.0 million and settled all unpaid accrued interests thereon in the sum of approximately HK$15.1 million. For details of the Convertible Bonds, please refer to the Company's announcements dated 26th May 2017, 2nd June 2017, 20th June 2017 and note 28 to the consolidated financial statements.

Capital Structure

The shares of the Company were listed on GEM on 31st January 2000. The changes in the capital structure of the Company for the Year are set out in note 29 to the consolidated financial statements.

Significant Investments/Material Acquisitions and Disposals

On 9th February 2018, the Group further invested HK$20,000,000 in a private investment fund, namely iSun Global Restructuring-led Partnership Fund I LP ("iSun Fund"), as part of the Group's commitment of investment in iSun Fund of HK$200,000,000. Details of the iSun Fund and the Group's commitment can be referred to the announcements of the Company dated 25th July 2017 and 9th February 2018. Except for the above investment in private investment funds and listed securities, the Group had no significant investment and no material acquisition or disposal during the Year.

Segment Information

The Group's IHA segment is principally engaged in manufacture, sales and distribution of IHA and complementary products to consumer markets. The total revenue of the IHA segment for the Year significantly decreased by 33.5% to approximately HK$400.8 million as compared with last year. As the global Internet Protocol Television ("IPTV") market has entered into a year of market maturity and due to a significant decrease in sales order received, the Group's revenue in Hong Kong and the overseas markets decreased significantly by 57.2% and 45.0% to approximately HK$71.2 million and HK$220.4 million respectively as compared with last year. As the IHA segment recorded significant losses for two consecutive years, the Group has outsourced the production line since the second half of 2018 to reduce production and operating costs. As a result, the Group sold most of the raw materials to outsourced producers and therefore, the significant increase in the overall revenue in the PRC markets for the Year by 207.2 % to approximately HK$109.2 million and the improvement of the overall gross profit margin of the Group to 6.9% for the Year (2017: 4.8%). At the same time, the Group dismissed part of the production line staffs and related management personnel with severance payment of approximately HK$22.8 million paid during the Year. Therefore, the IHA segment recorded a loss of approximately HK$53.8 million for the Year (2017: approximately HK$40.7 million).

FINANCIAL REVIEW *(Continued)*

Segment Information *(Continued)*

The Group's investing segment is principally engaged in trading of securities and investing in financial instruments. This segment recorded a substantial loss of approximately HK$311.6 million for the Year (2017: a profit of approximately HK$236.4 million). The main reason was that the Group recorded net losses on financial assets/liabilities at fair value through profit or loss of approximately HK$325.3 million due to adverse capital market conditions and the first adoption of HKFRS 9 for the Year (2017: net gains of approximately HK$49.0 million). This was one of the major reasons for the change from a profit last year to a loss attributable to owners of the Company for the Year.

The leasing segment of the Group comprises leasing out of properties. This segment recorded a profit of approximately HK$21.3 million for the Year (2017: approximately HK$7.2 million). The Group recognised net revaluation gains of approximately HK$17.6 million on its investment properties of this segment for the Year (2017: approximately HK$4.7 million). The other operations segment of the Group comprises trading of miscellaneous materials. This segment recorded a loss of approximately HK$0.4 million for the Year (2017: approximately HK$1.0 million).

The internet data centre ("IDC") segment of the Group comprises construction, operation and leasing out of IDC. This segment recorded a profit of approximately HK$42.5 million for the Year (2017: a loss of approximately HK$7.5 million). This significant improvement in the segment result was mainly attributable to the Group recorded rental income from leasing out of IDC of approximately HK$28.4 million (2017: approximately HK$9.2 million) and recognised net revaluation gains of approximately HK$21.7 million on its investment properties of this segment for the Year (2017: net revaluation loss of approximately HK$2.8 million). As the IDC segment is still at the investing stage, the Group will continue to deploy resources in this segment.

Geographical markets of the Group were mainly located in the PRC and overseas during the Year. Because the Group has outsourced the production line and sold most of the raw materials to outsourced producers of approximately HK$100.6 million for the Year (2017: HK$Nil), the overall revenue generated from PRC market increased by 207.2% to approximately HK$109.2 million (2017: approximately HK$35.6 million). Although the Group has been actively exploring new overseas markets such as Bulgaria, Netherlands, Poland, etc., the revenue generated from the Australian markets decreased significantly by 52.2% to approximately HK$174.7 million. As a result, the overall revenue generated from the overseas markets for the Year decreased significantly by 45.0% to approximately HK$220.4 million as compared with last year. In the Hong Kong market, as the market is entering a mature period, the Group's overall revenue in the Hong Kong market decreased by 57.2% to approximately HK$71.2 million for the Year as compared with last year. As a result, the overall revenue of the Group decreased by 33.5% to approximately HK$400.8 million for the Year as compared with last year.

Exposure to Fluctuations in Exchange Rates

Most of the trading transactions of the Group were denominated in Renminbi ("RMB") and United States dollars ("USD"). The assets of the Group were mainly denominated in RMB with the remaining portions denominated in USD and Hong Kong dollars ("HKD"). The official exchange rates for USD and HKD have been relatively stable for the Year. Therefore, the Group is only exposed to foreign exchange risk arising from RMB exposures, primarily with respect to the HKD. Although the exchange rate of the RMB against other currencies relatively fluctuated in 2018, the Group converted a part of its RMB to HKD in the first half of 2018, resulting in net exchange gains of approximately HK$11.3 million for the Year (2017: approximately HK$21.3 million). As at 31st December 2018, the Group had entered into forward contracts to hedge its foreign currency exposure. The Group will constantly monitor and manage its exposure to foreign exchange risk.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Contingent Liabilities

During the Year, some customers complained to the Beijing Administration for Industry and Commerce that they suffered losses due to false publicity and unfair competition of the products sold by a wholly-owned subsidiary of the Company. The revenue generated from these products for the Year amounted to approximately HK$0.7 million.

Up to the date of approval of these consolidated financial statements, the wholly-owned subsidiary has been undergoing investigation by the Beijing Administration for Industry and Commerce. Based on the Directors' best estimate, the outcome of the complaints will not have a material adverse effect on the Group and therefore no provision has been made in the consolidated financial statements.

Human Resources and Relations with the Employees

As at 31st December 2018, the Group had over 180 (2017: over 470) full time employees, of which 25 (2017: 29) were based in Hong Kong and the rest were in the PRC and the United States. Staff costs of the Group amounted to approximately HK$109.1 million for the Year (2017: approximately HK$93.6 million). The increase in the staff costs was mainly attributable to the Group's dismissal of part of the production line staffs and related management personnel, resulting in the payment of severance payment of approximately HK$22.8 million during the Year. The employees of the Company's subsidiaries are employed and promoted based on their suitability for the positions offered. The salary and benefit levels of the Group's employees are in line with the market rates. Employees are rewarded on a performance-related basis within the general framework of the Group's remuneration system which is reviewed annually. In addition to basic salaries, staff benefits also include medical scheme, various insurance schemes and share option scheme.

BUSINESS REVIEW

After more than sixteen years of development and under the steady growth of the global IPTV market, the Group's IHA business has entered into a year of market maturity. As the IHA business recorded significant losses for two consecutive years, the Group outsourced the production line in the second half of 2018 to reduce production and operating costs. As a result, the Group dismissed part of the production line staffs and related management personnel with severance payment paid during the Year.

As one of the leading suppliers of IPTV set-top box ("STB") in Hong Kong, however, as the market is entering a mature period, the Group's overall revenue in the Hong Kong market decreased by 57.2% to approximately HK$71.2 million for the Year as compared with last year.

In the overseas markets, the Group keeps on maintaining good cooperation relationships with various existing telecom operators and system integration suppliers. The Group has managed to forward continuous shipments of its products to customers in Australia, Brazil, Russia, Spain, etc.. At the same time, the Group is actively exploring new markets in Europe. Although sales orders from some overseas customers increased for the Year, the revenue from the Australian market decreased significantly by 52.2% to approximately HK$174.7 million as compared with last year. As a result, the overall revenue of the overseas markets for the Year decreased significantly by 45.0% to approximately HK$220.4 million as compared with last year.

BUSINESS REVIEW *(Continued)*

In the PRC market, even though one of the major PRC customers of the Group changed its product and only placed small orders with the Group during the Year, the Group sold most of the raw materials to outsourced producers leading to the significant increase in the overall revenue in the PRC markets for the Year by 207.2 % to approximately HK$109.2 million.

With respect to the new IDC business, the Group concentrates its efforts on providing renowned domestic and foreign enterprises with reliable data centre facilities services. During the Year, the Group's rental income generated from leasing of IDC was approximately HK$28.4 million (2017: approximately HK$9.2 million). In addition, the Company's indirectly wholly-owned subsidiary, and two United States private companies (the "Consultants") entered into design and consultancy agreements in early 2018, pursuant to which consultancy services will be provided on the design and construction of the Group's first IDC in the United States. During the Year, as the Group passed an assessment by the Building Division of San Jose of the United States as well as the hearing hosted by the Building Division on 5th December 2018, the Building Division has decided to issue a building permit to the subsidiary of the Company in the United States. Currently, tender process for general contractor has been started, for which phase one is expected to be officially operated in 2019 and phase two is expected to be completed in 2020. The establishment of a large IDC in the United States is an important step towards expanding the global IDC business of the Group and shows the determination of the Group to vigorously develop its IDC business.

With respect to investment business, the Group conducted some investments in the secondary market and private investment funds during the Year. Based on value investment, the Group only selected the investment products in the secondary market by taking risk control and maintaining reasonable earning expectation as the investment strategy. Maintenance and appreciation of asset value are the long-term investment commitments of the Group. Meanwhile, the Group also constantly reviews and manages its investment portfolios. During the Year, the unsatisfactory performance of the Group's short-term investment portfolio amid the adverse capital market conditions and the first adoption of HKFRS 9 resulted in the Group recognising net losses on financial assets/liabilities at fair value through profit or loss of approximately HK$325.3 million for the Year (2017: net gains of approximately HK$49.0 million), even though the Group recognised a gain on derecognition of financial liabilities upon redemption of convertible bonds on the bond maturity date of approximately HK$45.5 million.

Key Risks and Uncertainties

During the Year, the Group endeavoured to improve the risk management system on different aspects of company strategies, businesses operation and finance. A number of risks and uncertainties may affect the financial results and business operations of the Group. For the IHA business, factors, such as fierce market competition in the PRC and overseas markets, rapid iteration of technological products, Renminbi exchange rate fluctuation, the drop in the selling price of products and the increase in production cost and labour cost, may bring uncertain impacts on the development of the IHA business of the Group. For the IDC business, whether the construction and layout of the project can be completed as scheduled and whether the leasing contracts signed by customers and rental income can meet the expectation will affect the progress of the IDC business of the Group. For the investing business, the frequent changes of market policies and regulations about the PRC stock market and the unclear global economic environment would be the two key risk factors. In future business operations, the Group will be highly cautious of the aforesaid risks and uncertainties and will proactively adopt effective measures to tackle such risks and uncertainties.

Management Discussion and Analysis

BUSINESS REVIEW *(Continued)*

Environmental Policies and Performance

The Group is committed to building an environmentally-friendly corporation and will always take the environmental protection issue into consideration during daily operation. The Group does not produce material waste nor emit material quantities of air pollution materials during its production and manufacturing process. The Group also strives to minimise the adverse environmental impact by encouraging the employees to recycle office supplies and other materials and to save electricity.

Compliance with Laws and Regulations

The Company was listed on the Stock Exchange in 2000. The operations of the Group are mainly carried out by the Company's subsidiaries in the PRC, Hong Kong and the United States. As such, the Group's operations shall comply with relevant laws and regulations in the PRC, Hong Kong and the United States accordingly. During the Year, the Group has complied with all the relevant laws and regulations applicable to it in all material respects in the PRC, Hong Kong and the United States. The Group shall continue to keep itself updated with the requirements of the relevant laws and regulations in the PRC, Hong Kong and the United States and adhere to them to ensure compliance.

BUSINESS PROSPECT

2019 is still challenging for the Group while the global economy and markets fall short of expectations and capital markets are subject to constant fluctuations, and will be confronted with more severe challenges in the future. Being one of the earliest companies researching and developing in broadband STB products in the world, the Group, based on its accumulation of technological expertise over the years and its own research and development capability, will continue to improve and upgrade its core products and performances, and actively develop new products to adapt to new market opportunities, so as to maintain strong competitive edge. The Group vigorously expands the market of small and medium-sized overseas operators with an objective to increase its operating revenue and to boost the overall gross profit margin of the STB business of the Group. The Group expects its STB business to achieve a better performance in the near future.

The Group takes initiatives in developing businesses in relation to global IDC and cloud computing. In recent years, with economic globalisation and the implementation of China's "Belt and Road" strategy, the development of Chinese enterprises in overseas markets has accelerated significantly. The industries involved have been further expanded from traditional manufacturing industry to multimedia, games, video, mobile internet and other industries. Therefore, the overseas Chinese enterprises have strong demand for cloud computing and big data services locally. To take advantage of its business network and industry creditability in the Greater China region as well as the international market, the Group aims to provide safe and reliable data centre facilities and services for renowned domestic and overseas enterprises, and by proactively expanding internationally, the Group will develop global cloud computing data centres for large scale corporations and global cloud computing total solutions for small and medium enterprises in the Greater China region.

BUSINESS PROSPECT *(Continued)*

In 2018, the Group passed an assessment by the Building Division of San Jose of the United States as well as the hearing hosted by the Building Division on 5th December 2018, the Building Division has decided to issue a building permit to the subsidiary of the Company in the United States. It has entered the tendering stage of the main contractor. It is expected that the first phase will be delivered in 2019 and the second phase will be completed in 2020. The Group will start a feasibility study for a second data center in the United States hereafter. The Group, through preparation of the construction of the Group's first IDC in the United States, will expand the IDC portfolio of the Group and explore new sources of revenue, so as to increase the Group's overall profitability in the near future. In the future, the Group will also actively cooperate with various parties in the PRC, Hong Kong and overseas markets, in order to develop the Group into an internationally renowned leading cloud computing enterprise in the era of big data.

The market outlook remains highly uncertain in 2019. Our management and all our staff will carry on with the spirit of dedication, diligence, passion, and entrepreneurship, focus on the objective and dare to shoulder responsibilities with assiduity and composure so as to provide customers with exquisite IHA products and high-quality IDC services "with the spirit of craftsmanship"and to create more value for shareholders and society.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Qiang, aged 50, graduated with a master's degree in business administration from Nanyang Technological University, Singapore. Mr. Li has been the president of Beijing Daily Technologies Co., Ltd.* (北京德利迅達科技有限公司) since March 2011. He had been the deputy chairman and the chief executive officer of Trunkbow Asia Pacific (Shandong) Co., Ltd. and a director of Trunkbow International Holdings Ltd., the shares of which were delisted from The NASDAQ (National Association of Securities Dealers Automated Quotation) Stock Market in 2014. Mr. Li is the sole shareholder and the sole director of Capital Melody Limited, which indirectly holds 32.09% equity interest in Cloudrider Limited, a substantial shareholder of the Company. Mr. Li was appointed to the Board as an executive Director and the co-chairman on 10th June 2016 and re-designated as the chairman on 8th March 2017.

Mr. Gao Fei, aged 39, graduated with a master's degree in business administration from The Hong Kong University of Science and Technology. He has been the general manager of Shanghai Sino Crown Investment LLP since May 2014. Mr. Gao Fei had been a director of Lontrue Co., Ltd* (朗源股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange, stock code: 300175). He is also a director of certain subsidiaries of the Company. Mr. Gao was appointed to the Board as an executive Director on 20th June 2016 and appointed as the chief executive officer on 15th December 2017.

Mr. Shi Guangrong, aged 58, graduated with a bachelor's degree in engineering from Department of Industrial Automation of Beijing University of Technology. Mr. Shi has been with the Group since 1996, responsible primarily for marketing and investment management functions of the Group. Mr. Shi is currently the compliance officer of the Group and the executive president of the listing platform of the Group, possessing over 12 years of regulatory and compliance experience. He is also a director of certain subsidiaries of the Company. He is currently a non-executive director of Global Token Limited (formerly known as Global Energy Resources International Group Limited), a company listed on GEM of the Stock Exchange. Mr. Shi was appointed to the Board as an executive Director on 7th October 1999.

Mr. Zhu Jiang, aged 61, graduated from Beijing University of Technology majoring in mechatronic engineering. Mr. Zhu has over 22 years of research experience in computer engineering, extensive experience in digital-to-analog circuits and high-level assembly languages programming and over 12 years of management experience. Mr. Zhu is a director and the legal representative of certain subsidiaries of the Company. Mr. Zhu was appointed to the Board as an executive Director on 24th July 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Shen Yan, aged 55, holds a bachelor's degree in accounting and has over 23 years of accounting experience and 20 years of auditing experience. Ms. Shen worked with Beijing Zhonggongxin Certified Public Accountants* (北京中公信會計師事務所), where she presided over audit works for local and international renowned enterprises in manufacturing, professional affairs and services and has accumulated solid experience in corporate finance management and auditing. Ms. Shen has successively held key positions in numerous corporations in the PRC and possesses good expertise in financial accounting, budgetary control and financial management. She also took part in the researches, editing and publication of books on financial management subjects. Ms. Shen had also been a staff of Beijing University of Technology. Currently, Ms. Shen is the financial controller of a PRC firm. Ms. Shen was appointed to the Board as an independent non-executive Director on 12th January 2005.

Biographical Details of Directors and Senior Management

Mr. Zhong Pengrong, aged 65, is a senior economist. He has long worked as a chief researcher with the central government of the PRC and currently holds professorships in several reputable universities and is an adviser to over 20 enterprises and local governments in the PRC. Mr. Zhong is currently the chairman and researcher of Beijing Vision Consultancy Centre* (北京視野諮詢中心), where he has formulated various development strategies for enterprises of different industries and local governments. He has in-depth understanding on the macro-economic environment and government administrative management in the PRC. Mr. Zhong was appointed to the Board as an independent non-executive Director on 25th October 1999.

Ms. Dong Hairong, aged 44, is a deputy director of National Engineering Research Center of Rail Transportation Operation and Control System of Beijing Jiaotong University, a professor and PhD student tutor of State Key Laboratory of Rail Traffic Control and Safety of Beijing Jiaotong University. Ms. Dong graduated from Peking University with a doctorate degree in Science. Ms. Dong was appointed to the Board as an independent non-executive Director on 6th June 2018.

COMPANY SECRETARY

Dr. Liu Wei, aged 61, has PRC lawyer qualification and is a solicitor qualified to practice law in Hong Kong and in England. He graduated from the Northwest University of China, the Chinese University of Political Science and Law and the University of Cambridge with a bachelor's degree in Chinese literature, a master's degree in law, a Ph.D. in Law respectively. He also completed his Common Professional Examination (CPE) with Manchester University in England, as well as a Postgraduate Certificate in Laws (PCLL) with the University of Hong Kong. Dr. Liu has extensive experience in corporate finance and corporate governance of listed companies and is a partner of DLA Piper. Dr. Liu is the company secretary of the Company since 3rd July 2007.

SENIOR MANAGEMENT

Mr. Xue Guo, aged 45, is the chief operating officer of the Group. He joined the Group as vice president of a subsidiary of the Group in May 2017 and was responsible for taking charge of the acquisition of the entire issued share capital of Indeed Holdings Limited by the Company, which completed on 7th September 2017. He graduated from the Department of Precision Instrument of Tsinghua University with a bachelor degree in engineering, and obtained a master degree in business administration from the School of Management of Shandong University. He has also obtained the certificates of practitioner issued by the Securities Association of China, the China Futures Association and Asset Management Association of China. Mr. Xue has relevant experience in the operation and management of telecommunications, media and technology (TMT) businesses and in investment business. Prior to joining the Group, he was the investment director of an investment company. Mr. Xue was appointed as the chief operating officer of the Group on 15th September 2017.

Directors' Report

The Directors have pleasure in submitting to all shareholders of the Company (the "Shareholders"), their report together with the audited consolidated financial statements of the Group for the year ended 31st December 2018.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 39 to the consolidated financial statements.

An analysis of the Group's performance for the Year by business and geographical segments is set out in note 8 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 29 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December 2018 are set out in the consolidated income statement on page 57.

The Board does not recommend the payment of any dividend for the year ended 31st December 2018.

DIVIDEND POLICY

The declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the bye-laws of the Company (the "Bye-laws"). Subject to compliance with applicable laws, rules, regulations and the Bye-laws, in deciding whether to propose any dividend payout, the Board will take into account the Group's financial results, the earnings and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the development plans of the Company.

CLOSURE OF REGISTER OF MEMBERS

The 2019 annual general meeting of the Company (the "AGM") is scheduled to be held on Friday, 17th May 2019. For the purpose of ascertaining Shareholders' entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Tuesday, 14th May 2019 to Friday, 17th May 2019 (both dates inclusive), during which period no transfer of Shares will be registered. In order for a Shareholder to be eligible to attend and vote at 2019 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 10th May 2019.

RESERVES

Movements in reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on page 60 and notes 30 and 32(a) to the consolidated financial statements respectively.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the investment properties and property, plant and equipment of the Group during the Year are set out in notes 16 and 17 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the laws of Bermuda.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 7.

BUSINESS REVIEW

Details of the Group's business review and business prospect during the Year are set out in the "Management Discussion and Analysis" section in this annual report.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

SHARE OPTIONS

Details of the Company's share option scheme adopted by the Shareholders on 14th January 2015 (the "Share Option Scheme") and the movement in the Company's share options held by the Directors during the Year ended 31st December 2018 are set out in note 36 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

A brief biographical details of Directors and senior management are set out on pages 16 and 17.

DIRECTORS

The Directors during the Year and up to the date of this report are:

Executive Directors:

Mr. Li Qiang *(Chairman)*
Mr. Gao Fei *(Chief Executive Officer)*
Mr. Shi Guangrong
Mr. Zhu Jiang

Independent Non-Executive Directors:

Ms. Shen Yan
Mr. Zhong Pengrong
Ms. Dong Hairong (appointed on 6th June 2018)
Mr. Li Menggang (resigned on 24th May 2018)

Directors' Report

DIRECTORS' SERVICE CONTRACTS AND APPOINTMENT LETTERS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years which are automatically renewed for successive terms of one year each upon expiry of the then current term and shall be terminated by either party giving to the other not less than six months' notice in writing.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of two years.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTOR'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the Directors' service contracts as disclosed in this annual report and the granting of share options to the Directors, details of which is set out in note 36 to the consolidated financial statements, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Year.

EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' and chief executive's emoluments and the five highest paid individuals of the Group during the Year are set out in notes 11 and 12 to the consolidated financial statements respectively.

EMOLUMENT POLICY

The Directors are paid fees in line with market practice. The Group adopted the following main principles in determining the remuneration of the Directors and other employees:

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources; and
- Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and enhancing the value of the Company to its Shareholders.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2018, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(1) Long positions in the shares of the Company

Name of Director	Nature of interests	Number of ordinary shares	Capacity	Approximate percentage of the total issued share capital of the Company
Mr. Li Qiang	Personal	4,604,000	Beneficial owner	0.26%
Mr. Gao Fei	Personal	2,190,000	Beneficial owner	0.12%
Mr. Shi Guangrong	Personal	22,660,000	Beneficial owner	1.26%
Mr. Zhu Jiang	Personal	7,926,756	Beneficial owner	0.44%
Ms. Shen Yan	Personal	324,000	Beneficial owner	0.02%
Mr. Zhong Pengrong	Personal	144,000	Beneficial owner	0.01%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(2) Long positions in the underlying shares of the Company

Pursuant to the Share Option Scheme adopted by the Shareholders on 14th January 2015, the Directors and chief executive of the Company in the capacity as beneficial owners were granted unlisted and physically settled share options to subscribe for the shares of the Company, details of which as at 31st December 2018 were as follows:

				Number of shares issuable under the Share Options				
Category	**Date of grant**	**Exercise price per share** *HK$*	**Exercisable period**	**Outstanding as at 1st January 2018**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31st December 2018**
Directors								
Mr. Shi Guangrong	16th January 2015	2.2	16th January 2015 - 15th January 2020	6,500,000	–	–	–	**6,500,000**
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 - 15th January 2020	7,000,000	–	–	–	**7,000,000**
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,000,000	–	–	–	**1,000,000**
Mr. Zhong Pengrong	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,000,000	–	–	–	**1,000,000**
				15,500,000	–	–	–	**15,500,000**

Further details regarding the Share Option Scheme are set out in note 36 to the consolidated financial statement.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31st December 2018, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules.

Apart from the Share Option Scheme disclosed above, at no time during the Year was any of the Company or its subsidiaries a party to any arrangement which enables the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2018, the following persons (other than Directors or chief executive of the Company) have interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares of the Company

Name of Shareholders	Nature of interests	Number of ordinary shares	Capacity	Approximate percentage of the total issued share capital of the Company
Cloudrider Limited ("Cloudrider") *(Note 1)*	Corporate	450,357,200	Beneficial owner	24.98%
Lontrue Co., Ltd* (朗源股份有限公司) ("Lontrue") *(Note 1)*	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Honbridge Holdings Limited (Stock code: 8137) ("Honbridge") *(Note 2)*	Corporate	450,357,200	Person having a security interest in shares	24.98%
Hong Bridge Capital Limited ("Hong Bridge") *(Note 2)*	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Mr. He Xuechu *(Note 2)*	Personal	450,357,200	Interest of a controlled corporation	24.98%
Ms. Foo Yatyan *(Note 2)*	Personal	450,357,200	Interest of a controlled corporation	24.98%
Super Dragon Co., Ltd. ("Super Dragon") *(Note 3)*	Corporate	121,533,800	Beneficial owner	6.74%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Notes:

1. According to the disclosure forms filed by Cloudrider and Lontrue on 19th May 2016, Lontrue holds 35.65% of the equity interest of Cloudrider and is deemed to be interested in 450,357,200 shares of the Company. Mr. Li Qiang, the executive Director and chairman of the Board of the Company, is the sole shareholder and director of Capital Melody Limited, holding 32.09% of the equity interest of Cloudrider as at 31st December 2018.

2. According to the disclosure forms filed by Honbridge, Hong Bridge, Mr. He Xuechu and Ms. Foo Yatyan on 23rd September 2016, Hong Bridge holds more than one-third of the issued share capital of Honbridge and Mr. He Xuechu holds more than one-third of the issued share capital of Hong Bridge which in turn holds more than one-third of the issued share capital of Honbridge. As such, Mr. He Xuechu and Hong Bridge are deemed interested in 450,357,200 shares of the Company in which Honbridge has an interest. Ms. Foo Yatyan is deemed to be interested in 450,357,200 shares of the Company because the interests are related to the interests of spouse.

3. Mr. Zhu Weisha, a former Director, holds these shares through Super Dragon, a company in which Mr. Zhu holds the entire issued share capital and of which he is the sole director.

Save as disclosed above, as at 31st December 2018, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duties in their offices.

Such permitted indemnity provision has been in force throughout the year and is still in force. In addition, the Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

MANAGEMENT CONTRACTS

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.

MAJOR SUPPLIERS AND CUSTOMERS

The Group has developed close and long-term cooperation relationships with major suppliers and customers. During the Year, stable and good relationships between the Group and its major suppliers and customers have been maintained. The percentages of purchases and sales for the Year attributable to the Group's major suppliers and customers are as follows:

Purchases

–	the largest supplier	19.6%
–	five largest suppliers combined	59.8%

Sales

–	the largest customer	43.6%
–	five largest customers combined	90.1%

None of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers and major customers noted above.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the Year, which constitute exempted connected transactions or continuing connected transactions under the GEM Listing Rules, are set out in note 38 to the consolidated financial statements.

Directors' Report

COMPETING INTERESTS

None of the Directors or the controlling Shareholders and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competed or might compete with the business of the Group or has any other conflict of interest with the Group during the Year.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float required under the GEM Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

AUDITOR

The consolidated financial statements of the Company for the year ended 31st December 2018 were audited by Mazars CPA Limited, *Certified Public Accountants*.

A resolution for the re-appointment of Mazars CPA Limited as the auditor of the Company will be proposed at the forthcoming AGM of the Company.

On behalf of the Board
Yuxing InfoTech Investment Holdings Limited
Li Qiang
Chairman

Hong Kong, 20th March 2019

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continuing growth of the Group and for safeguarding and maximising Shareholders' interests.

During the Year, the Company compiled with the code provisions of the Corporate Governance Code ("CG Code"), except for the deviations from code provisions A.6.7 and E.1.2 as set out in Appendix 15 to the GEM Listing Rules which are explained below:

CG Code Provision A.6.7

Pursuant to code provision A.6.7 stipulates that independent non-executive Directors and other non-executive Directors should attend general meeting. Due to their own other important business engagements, some independent non-executive Directors did not attend the annual general meeting held on 18th May 2018 (the "AGM").

CG Code Provision E.1.2

Pursuant to code provision E.1.2 of the CG Code, the Chairman of the Board should attend the AGM and invite the chairman of the audit, remuneration and nomination committees to attend and be available to answer questions at the AGM. Mr. Shi Guangrong, an executive Director, has been performing the above duties in lieu of Mr. Li Qiang, the Chairman of the Board, who had other prearranged business commitments on the day of the AGM.

NON-COMPLIANCE WITH RULES 5.05(1) AND 5.28 OF THE GEM LISTING RULES

Pursuant to Rule 5.05(1) and Rule 5.28 of the GEM Listing Rules, the Company must appoint independent non-executive Directors representing at least one-third of the Board and the Audit Committee must comprise a minimum of three members respectively. Upon the resignation of independent non-executive Director of Mr. Li Menggang on 24th May 2018, the Company did not fulfill the Rule 5.05(1) and Rule 5.28 of the GEM Listing Rules. However, on 6th June 2018, with the appointment of Ms. Dong Hairong as the independent non-executive Director, the number of the independent non-executive Directors and Audit Committee members have fulfilled with the minimum number required under Rule 5.05(1) and Rule 5.28 of the GEM Listing Rules.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings as set out in rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, each Director confirmed that he/she has complied with the required standard set out in the Required Standard of Dealings during the Year.

Corporate Governance Report

BOARD OF DIRECTORS

Board composition

The Board is responsible for managing the Company on behalf of the Shareholders. The Board is of the view that it is the Directors' responsibility to create value for the Shareholders and safeguard the best interests of the Company and the Shareholders as a whole by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realising the strategies and goals of the Group;
- being held accountable for the internal control system of the Group and responsible for reviewing its effectiveness;
- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Group in a balanced, clear and comprehensible manner. These responsibilities are applicable to quarterly, interim and annual reports of the Company, other price sensitive announcements published according to the GEM Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information discloseable under statutory requirements;
- executive Directors, who oversee the overall business of the Group, are responsible for the daily operations of the Group, the Board is responsible for affairs involving the overall policies, finance and Shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy. Implementation and execution of such decisions is delegated to the management; and
- regularly reviewing its own functions and the powers conferred upon executive Directors to ensure appropriate arrangements are in place.

The management is well informed of its powers and duties with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company.

The Board currently comprises seven Directors, with four executive Directors, namely, Mr. Li Qiang (Chairman), Mr. Gao Fei, Mr. Shi Guangrong and Mr. Zhu Jiang and three independent non-executive Directors, namely, Ms. Shen Yan, Mr. Zhong Pengrong and Ms. Dong Hairong. The biographies of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. The Directors, with relevant and sufficient experience and qualifications, have given sufficient time and attention to the affairs of the Group and have exercised due care and fiduciary duties in relation to the significant issues of overall business planning, management and strategic development of the Group.

To the knowledge of the Directors, the Board members have material no financial, business, family or other relevant relationships with each other.

BOARD OF DIRECTORS *(Continued)*

Independent Non-Executive Directors

During the Year, the Board at all times complied with the requirement of the GEM Listing Rules of having at least three independent non-executive Directors sit on the Board (more than one third of the Board members) and at least one of them having appropriate professional accounting or related financial management expertise. All the independent non-executive Directors are appointed for a two-year term, and subject to rotation and re-election pursuant to the Bye-laws. Details of their appointment are referred to the section "Directors' Service Contracts and Appointment Letters" on page 20. Each of the independent non-executive Director has made an annual confirmation of independence pursuant to rule 5.09 of the GEM Listing Rules and the Company considers these Directors to be independent.

Board practice and conduct of meetings

The full Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous communication methods may be used to improve attendance when individual Director cannot attend the meeting in person.

The attendance records of each Director and each member of the Board Committees in 2018 are as follows:

	Number of meetings attended/eligible to attend				
Executive Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meeting**
Mr. Li Qiang	5/5	N/A	N/A	1/1	0/1
Mr. Gao Fei	5/5	N/A	N/A	N/A	0/1
Mr. Shi Guangrong	5/5	N/A	N/A	N/A	1/1
Mr. Zhu Jiang	5/5	N/A	2/2	N/A	1/1
Independent Non-Executive Directors					
Ms. Shen Yan	5/5	4/4	2/2	1/1	0/1
Mr. Zhong Pengrong	5/5	4/4	2/2	1/1	0/1
Ms. Dong Hairong (appointed on 6th June 2018)	2/5	2/4	1/2	1/1	0/1
Mr. Li Menggang (resigned on 24th May 2018)	3/5	2/4	1/2	0/1	0/1

Information of material issues, due notice of meetings and minutes of every meeting have been sent to all Directors for their information, comment and review.

BOARD OF DIRECTORS *(Continued)*

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service agreement with the Company for a term of three years which are automatically renewed for successive terms of one year each upon expiry of the then current term and shall be terminated by either party giving to the other not less than six months' notice in writing.

Each of the independent non-executive Directors, has entered into a letter of appointment with the Company for a term of two years.

The Company has established formal, considered and transparent procedures for the appointment of new Directors. The procedures and process of appointment, re-election and removal of Directors are laid down in the Bye-laws. Pursuant to Article 87 of the Bye-laws, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. Pursuant to Article 86(2) of the Bye-laws, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorization by the Shareholders in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Shareholders in general meeting. Any Director so appointed by the Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election at that meeting.

In compliance with the code provision A.4.3 of the CG Code, the further appointment of independent non-executive Directors who has served more than 9 years should be subject to a separate resolution to be approved by Shareholders and the papers to Shareholders accompanying that resolution should include the reasons why the Board believes the relevant Director is still independent and should be re-elected.

Directors' Training

Each newly appointed Director shall receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operation of the Group and that he/she is aware of his/her responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements.

During the Year, all existing Directors were provided with updates on the latest developments and changes in the GEM Listing Rules and other relevant legal and regulatory requirements from time to time to develop and refresh the Directors' duties and responsibilities. Continuing briefings to Directors are arranged whenever necessary.

Board Diversity Policy

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board.

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills, knowledge and length of service. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

Chairman and Chief Executive Officer

Pursuant to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. During the Year, the positions of chairman and chief executive officer of the Company are held by different persons. Mr. Li Qiang acted as chairman and Mr. Gao Fei acted as chief executive officer of the Company.

BOARD COMMITTEES

The Board has established three committees, namely audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee"), each overseeing and being responsible for affairs in different aspects of the Company. All Board committees of the Company are established with defined written terms of reference.

The written terms of reference for each board committee are in compliance with the GEM Listing Rules and they are posted on the respective websites of the Stock Exchange and the Company.

Nomination Committee

The Board has established the Nomination Committee. It currently comprises one executive Director and three independent non-executive Directors, namely, Mr. Li Qiang (Chairman), Ms. Shen Yan, Mr. Zhong Pengrong and Ms. Dong Hairong. The primary functions of the Nomination Committee include reviewing the Board's structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of independent non-executive Directors.

According to the Nomination Policy of the Company, appointments of Board members will be made on a merit basis and candidates will be considered against objective criteria. The selection criteria used in assessing the suitability of a candidate include:

- the candidate's academic background and qualifications (including professional qualifications, skills and knowledge which are relevant to the Company's business and corporate strategy);
- the candidate's relevant experience in the industry;
- the candidate's character and integrity;
- the candidate's willingness and capacity to devote adequate time in discharge of a director's duties;
- whether the candidate can contribute to the Board a diversity of perspectives;
- Where the candidate is proposed to be appointed as an independent non-executive Director whether the candidate is in compliance with the criteria of independence under the GEM Listing Rules; and
- any other factors as may be determined by the Board from time to time.

In terms of nomination procedures, any Board member may nominate or invite a candidate for appointment as a Director to be considered by the Nomination Committee. The Nomination Committee will then evaluate the personal profile of the candidate based on the selection criteria set out above, undertake due diligence in respect of such candidate and make recommendation for the Board's consideration and approval. For nomination of independent non-executive Director, the Nomination Committee will also assess the candidate's independence in accordance with the CG Code and the GEM Listing Rules. For re-appointment of retiring Directors, the Nomination Committee will review the candidate's overall contribution and performance (including the candidate's attendance at Board committee meetings, Board meetings and general meetings, his/her level of participation and performance on the Board), and make recommendations to the Board and shareholders for re-election at general meetings.

During the Year, the Nomination Committee held one meeting to review and make recommendation to the Board on the appointment of new directors and other related matters in accordance with the Nomination Committee's written terms of reference.

BOARD COMMITTEES *(Continued)*

Remuneration Committee

The Board has established the Remuneration Committee. It currently comprises one executive Director and three independent non-executive Directors, namely, Ms. Shen Yan (Chairlady), Mr. Zhu Jiang, Mr. Zhong Pengrong and Ms. Dong Hairong. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all directors and senior management; and establishing a formal and transparent procedure for developing remuneration policy and to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

During the Year, the Remuneration Committee held two meetings to review and make recommendation to the Board on the remuneration packages of new directors and other related matters in accordance with the Remuneration Committee's written terms of reference.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the member(s) of the senior management by band for the Year is set out below:

Remuneration band	Number of individuals
HK$5,500,001 to HK$6,000,000	1

Further particulars regarding Directors' and chief executive's emoluments are set out in note 11 to the consolidated financial statements.

Audit Committee

The Board has established the Audit Committee. It currently comprises three independent non-executive Directors, namely, Ms. Shen Yan (Chairlady), Mr. Zhong Pengrong and Ms. Dong Hairong. None of the members of the Audit Committee is a former partner of the auditors of the Company.

The principal duties of the Audit Committee are to assist the Board in reviewing the financial information, overseeing the financial reporting system, risk management, internal control systems and relationship with external auditor, and arrangements to enable employees of the Company to raise concerns under the protection of confidentiality about possible improprieties in financial reporting, internal control or other matters of the Company.

Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant laws, regulations and rules are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

During the Year, the Audit Committee held four meetings for the purposes of reviewing the quarterly, interim and annual financial results and reports and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, and the other matters in accordance with the Audit Committee's written terms of reference. The Group's audited annual results for the Year have been reviewed by the Audit Committee.

AUDITOR'S REMUNERATION

The remuneration in respect of audit and non-audit services provided by the auditor, Mazars CPA Limited, to the Group in the year 2018 amounted to HK$1,550,000 and HK$200,000 respectively. Non-audit services were mainly related to professional services in connection with interim financial information.

COMPANY SECRETARY

The company secretary of the Company is Dr. Liu Wei. He has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge in 2018.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for the Year, which give a true and fair view of the financial position of the Group on a going concern basis. Statements of Directors' responsibilities for preparing the consolidated financial statements and external auditor's reporting responsibilities are set out in the "Independent Auditor's Report".

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining the Company's internal control system and risk management procedures and for reviewing the effectiveness of these controls annually.

During the Year, the Directors has continuously reviewed and are satisfied with the effectiveness of the Group's risk management and internal control systems, including, in particular, financial, operational and compliance controls and risk management functions, to safeguard the Group's assets against unauthorised use or disposition, and to protect the interests of the Company and the Shareholders as a whole.

SHAREHOLDERS' RIGHTS

The annual report, interim report and quarterly reports offer comprehensive information to the Shareholders on operational and financial performance whereas AGM provide a forum for the Shareholders to exchange views directly with the Board. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board.

According to the Bye-laws, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meeting of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be lodged with the registered office of the Company.

As regards to proposing a person for election as a director, please refer to the procedures as set out in the Bye-laws on the website of the Company at www.yuxing.com.cn and the Stock Exchange.

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong and for the attention of the Company Secretary.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of quarterly, interim and annual reports, the publish and posting of notices, announcements and circulars on the GEM website and the Company's website in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

CONSTITUTIONAL DOCUMENTS

Pursuant to rule 17.102 of the GEM Listing Rules, the Company has published its Bye-laws on the respective websites of the Stock Exchange and the Company. During the Year, no amendments were made to the constitutional documents of the Company.

Environmental, Social and Governance Report

The Board is pleased to submit the Group's environmental, social and governance report for the year ended 31st December 2018. The contents of the report are in compliance with the relevant Environmental, Social and Governance Reporting Guide set out in Appendix 20 to the GEM Listing Rules.

1. SCOPE

The environmental, social and governance report (hereinafter the "Report") for the reporting period from 1st January 2018 to 31st December 2018 has been prepared with the approval from the board of directors in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 20 to the GEM Listing Rules. The Report is published annually, covering the places of operations and business scope of the Group:

- Beijing headquarters office (hereinafter "Beijing Headquarters"); and
- Zhongshan factory (hereinafter "Zhongshan Factory"), which is engaged in R&D, manufacturing and sales of the IPTV STB. (Since July 2018, Zhongshan Factory's entire production process has been outsourced to a contractor. Therefore, the production data for 2018 will differ from that of 2017. However, the office in the factory still maintains daily operations)

2. COMMUNICATION WITH STAKEHOLDERS

With a commitment to legal and regulatory compliance which we consider as the most fundamental social responsibility, the Group has maintained a high level of corporate disclosure and believes that clear communication of its corporate strategies, business development and future prospects can promote and create value for stakeholders.

The Group holds a general meeting every year, at which the management can explain the operations of the Group as well as listening to feedback from shareholders directly, thereby enabling two-way communication between the Board and investors. In addition to shareholders' meetings, in order to maintain close relationship with customers, suppliers and other stakeholders, the Group maintains communication with the stakeholders from time to time through visits, conference calls, corporate e-mails, customer service specialists, industry exhibitions and other channels to listen to their views and needs. The Group's overall performance is also reported each year to investors through the annual report.

Communication means between the Group and its major stakeholders are as follows:

Major stakeholders	Communication means
Investors	The Group maintains close, transparent and efficient communication with stakeholders through regular investor meetings, annual general meetings, e-mail, investor mailbox and announcements, etc.
Customers	After-sales service hotlines are set up to facilitate customers in expressing their opinions. In case of complaints, the staff of the Service Department will properly respond as soon as possible.
Employees	The Group formulates employment and employee benefit systems and improves their awareness of occupational safety and health through trainings.
Suppliers	Open and transparent procurement policies are established through e-mail, meetings, review and evaluation process to achieve mutual benefit with suppliers.
Community	Employees are sent to participate in environmental activities in the community.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT

Incorporating the concept of sustainable development into operating strategy

To align with the development trends of the world and to achieve its sustainable development objectives for the next century, the Group integrates the concept of sustainable development as an essential operating strategy into its values and corporate culture while adhering to its existing core values. The Group's sustainable development culture lies in its corporate decisions and operating strategies, including building a working environment with international standards for social responsibility management, improving the awareness of sustainability, and striving to reduce the environmental impacts and effects arising from the Group's operations, with an aim address the climate change, alleviate the resource shortage, and achieve sustainable development.

3.1 Environmental

Global climate change is currently one of the most concerned environmental issues of the United Nations and various governments. Weather abnormalities across the globe in recent years, such as super typhoon, rainstorm, flood, drought, abnormally high temperature, are closely related to the increase in greenhouse gases over the last few decades. As a member of the Earth's citizens, the Group is obligated to effectively utilise resources and control greenhouse gas emissions in a hope to give the future generations a better and eco-friendly environment.

3.1.1 Emissions

The Group actively responds to the global trend of emission reduction and is committed to avoid generating emissions such as exhaust gas, greenhouse gas, sewage and solid waste in its daily operations and to seek innovative technologies and new products to enhance environmental performance constantly. The Group has adopted a series of environmental protection policies and measures, which are regularly monitored and evaluated, to lay a solid foundation for green management, including:

Waste Reduction Control

The Group take various waste reduction measures to minimize the potential environmental hazards caused by wastes to air, land and water sources. These efforts, including reduction of waste generation, proactive implementation of resource classification, recovery and recycling, and enhancement of environmental management across the product life cycle such as procurement, production and disposal after use, allow the Group to actively reduce the waste volume and fulfil its corporate social responsibilities.

Exhaust Gas Monitoring

The main sources of air pollution are dust and exhaust gas generated by production units during the high temperature production process of the Group. The Group has been taking heed of the exhaust gas emissions of various plant equipment, and has established the Control Procedures for Energy and the Three Wastes (能源及三廢控制程序) to monitor exhaust gas emissions: (1) all departments must give priority to production technologies featuring high energy efficiency and less exhaust gas emissions; and (2) if emissions exceed the thresholds, responsible departments must immediately take effective control measures to reduce environmental damage. For example, the Human Resources Department will send all motor vehicles in the factory to the vehicle inspection station for annual inspection to ensure they pass the exhaust test. (3) All departments must ensure that the exhaust gas emission facilities function properly and must not stop using the facilities by removing them of keeping them idle. Where such facilities need to be removed or deactivated, approval must be obtained from the management representative. After the exhaust gas has been purified, the Standards of Guangdong Province on Emission Limits of Air Pollutants (大氣污染物排放限值) (DB44/27-2001) will be implemented to ensure required standards are met.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.1 Environmental *(Continued)*

3.1.1 Emissions (Continued)

The table below sets out the exhaust emissions of the Group in the 2018 and 2017 reporting years:

	Beijing Headquarters		*Zhongshan Factory	
	2018	2017	**2018**	2017
Nitrogen oxides (NOx) (kg)	**59.94**	54.66	**2.04**	2.51
Sulphur oxides (SOx) (kg)	**0.14**	0.12	**0.07**	0.06
Particulate Matters (PM) (kg)	**5.74**	5.24	**0.15**	0.18

Note:

* As Zhongshan Factory has outsourced the entire production process since July 2018 while the office in the factory still maintain daily operations, the production data for 2018 differs from that of 2017.

Reduce Greenhouse Gas Emissions

With respect to greenhouse gas emissions, the Group also conducts data monitoring to identify and classify sources of greenhouse gas emissions, so as to compare the data performance of various sources.

The table below sets out the total volume and density of greenhouse gas emissions of the Group in the 2018 and 2017 reporting years:

	Beijing Headquarters		*Zhongshan Factory	
	2018	2017	**2018**	2017
Direct greenhouse gas emissions				
Diesel oil consumption of mobile sources (litre)	**0**	0	**1,676.48**	0
Gasoline consumption of mobile sources (litre)	**9,194.9**	8,384.86	**2,772**	3,816.91
Natural gas consumption (m^3)	**27,375**	18,750	**0**	0
Total business trip travel mileage (km)	**887,939.02**	1,004,579	**0**	30,460
Direct greenhouse gas emissions (tonnes carbon dioxide equivalent)	**80.91**	60.16	**10.78**	8.68
Indirect greenhouse gas emissions				
Facility electricity consumption (kWh)	**199,489.35**	268,055	**506,075.71**	1,614,156.28
Total direct and indirect greenhouse gas emissions (tonnes carbon dioxide equivalent)	**412.94**	472.55	**449.85**	1,414.57
Production volume (unit)	**0**	0	**264,476**	1,059,062
#Greenhouse gas emission density (kilogram carbon dioxide equivalent/unit)	**0**	0	**1.70**	1.34

Note:

* As Zhongshan Factory has outsourced the entire production process since July 2018 while the office in the factory still maintain daily operations, the production data for 2018 differs from that of 2017.

The Beijing Headquarters is engaged in office operation, which does not involve generation of greenhouse gas emissions in its business operation.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.1 Environmental *(Continued)*

3.1.1 Emissions (Continued)

Business Travel Reduction

The Group understands long-distance transportation in business trips increases energy consumption, which can cause the increase of carbon emissions. Therefore, the Group prioritizes the use of modern communication means, including the intensive use of Internet videoconferencing, so as to reduce the need for long-distance travel and reduce the carbon emissions caused by the use of long-distance transportation.

Support Procurement from Local Suppliers

To reduce the emissions and energy consumption due to transportation, the Group encourages Zhongshan Factory to give priority to products of local suppliers where hardware and software conditions (such as cost, quality, Restriction of Hazardous Substances ("RoHS"), technology and services, and environmental protection) so permit, with an aim to reduce the goods delivery distance and the exhaust and greenhouse gas emissions.

Waste Management

"Fully-classified, Zero Waste" is the ultimate waste management goal of Yuxing InfoTech Investment Holdings Limited. The Group is committed to its waste recycling strategy, in addition to minimising waste generation for waste reduction through source controls such as raw material conservation and development of green production technologies, the Group actively promotes waste reuse to achieve the "3R" (i.e. reduction, reuse and recycling) of wastes together with reduced waste treatment cost. Meanwhile, the Group has developed the Control Procedures for Energy and the Three Wastes for the production process with reference to the solid waste disposal regulations issued by the Government of the People's Republic of China. The production facilities department must implement the procedures to ensure that wastes are disposed of in a responsible manner.

Hazardous Waste Disposal

Since 2011, the Group has gradually introduced green and environmental protection policies for products, established relevant procedures to set forth requirements for the management of hazardous wastes, and clearly defined the responsibilities of various departments in green and environmental management, thereby strengthening employees' concept of waste classification and recycling, while reducing the impacts on the environment and the disposing of hazardous waste through legal means.

For hazardous wastes, all departments of the Group must follow the internal Control Procedures for Energy and the Three Wastes to classify hazardous wastes and store them in separated areas in the factory. Afterwards, the factory shall hand over the hazardous wastes to a hazardous waste disposal company approved by the government for disposal. Such hazardous wastes including oil-bearing metal, waste chemical containers, waste lamps and soldering flux are subject to the following steps at various levels for source control, optimisation of technology and reduction of consumption:

1. Machine wiping solution is replaced by alcohol in part of the cleaning process in order to reduce the use of hazardous substances.

2. No-clean flux and tin wire are used for the wave soldering process in order to reduce generation of hazardous waste.

In 2018, Zhongshan Factory reduced the volume of hazardous wastes by 60.82% as compared with 2017.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.1 Environmental *(Continued)*

3.1.1 Emissions (Continued)

Hazardous Waste Disposal (Continued)

The table below sets out the total volume and density of hazardous waste of the Group in the 2018 and 2017 reporting years:

	#Beijing		*Zhongshan	
	2018	2017	**2018**	2017
Total hazardous wastes generated (tonne)	**0**	0	**0.76**	1.94
Production volume (unit)	**0**	0	**264,476**	1,059,062
Emission density per production unit (kg/unit)	**0**	0	**0.003**	0.002

Note:

* As Zhongshan Factory has outsourced the entire production process since July 2018 while the office in the factory still maintain daily operations, the production data for 2018 differs from that of 2017.

The Beijing Headquarters is engaged in office operation, which does not involve significant generation of hazardous waste

Non-hazardous Waste Disposal

In order to reduce the unnecessary waste generated during operations, the Group is committed to improving the recycling rate and usage of reusable materials, strives to achieve the highest resource efficiency in plant operation, operates in accordance with the wasted electronic equipment management regulations of various countries, and actively promotes the recycling of waste products and resources.

A recycling centre is set up in the Zhongshan Factory of the Group for employees to identify and separately store various types of solid wastes, and deliver reusable wastes to recyclers for proper disposal, including paper, plastic, metal, and electronic products. We also implement policy controls such as internal operation management, publicity, training, labeling, classification, and recycling to improve the recycling rate and achieve the highest resource efficiency.

In addition, Zhongshan Factory uses certain reusable containers for material transportation in the production process to replace the typical cartons, thereby reducing the generation of waste paper.

In 2018, Zhongshan Factory reduced the generation of non-hazardous wastes by 87.12% as compared with 2017.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.1 Environmental *(Continued)*

3.1.1 Emissions (Continued)

Non-hazardous Waste Disposal (Continued)

The table below sets out the total volume and density of non-hazardous waste of the Group in the 2018 and 2017 reporting years:

	#Beijing Headquarters		*Zhongshan Factory	
	2018	2017	**2018**	2017
Total non-hazardous wastes generated (tonne)	**0**	0	**16.60**	128.92
Production volume (unit)	**0**	0	**264,476**	1,059,062
Emission density per production unit (kg/piece)	**0**	0	**0.063**	0.122

Note:

* As Zhongshan Factory has outsourced the entire production process since July 2018 while the office in the factory still maintain daily operations, the production data for 2018 differs from that of 2017.

\# The Beijing Headquarters is engaged in office operation, which does not involve significant generation of non-hazardous waste

3.1.2 Resources Usage

The Group attaches much importance to environmental protection and implements appropriate measures to enhance the efficiency of resource utilisation based on its business philosophy of "conservation comes first and treatment from source".

Energy Conservation

In respect of energy conservation, the Group adopts different strategies to actively reduce damage to the ecological environment.

Energy Conservation Measures

(1) In the past, the Group has replaced the traditional 40W fluorescent lamps with 10W to 15W LED lamps for Beijing Headquarters and Zhongshan Factory, which reduces the power consumption and reduce the generation of hazardous waste due to replacement of traditional lighting equipment with shorter life.

(2) The Group implements power resource control in accordance with the internal Control Procedures for Energy and the Three Wastes, requiring each employee to participate in energy conservation and emission reduction actions. We educate our employees on the proper use of office electrical equipment, such as lighting, electric fans and air-conditioners, requiring them to turn off the equipment not in use in the respective areas, and to check all energy consuming equipment to ensure they are shut down before getting off duty. In addition, the Group publicises energy conservation and emission reduction knowledge to foster energy conservation and environmental protection work habits among employees.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.1 Environmental *(Continued)*

3.1.2 Resources Usage (Continued)

Energy Conservation Measures (Continued)

(3) We implement production power control according to the internal Control Procedures for Energy and the Three Wastes. For example, we set the temperature of the central air conditioner in the workshop to 26°C, and turn it off 30 minutes before getting off duty to avoid wasting resources.

(4) Air-source heat pump system is used to replace electric water heater in the dormitory of Zhongshan Factory. The pump system employs green pollution-free technology to absorb heat in the air, and generates hot water of 50°C or above through the compressor. With its energy consumption being 70% less than traditional electric water heater, the system is more durable and requires less maintenance cost.

Water Conservation Measures

The Group has not discovered any problem with the applicable water source and has no difficulty in water supply during its day-to-day operations. Our daily water use is taken from the city's water supply system, mainly for the purpose of office and domestic use. There is no self-contained groundwater or water from other natural sources. The Group constantly reminds employees to conserve water by putting up water conservation labels in washrooms, employee canteens and rest areas, such as "Please turn off the tap after washing hands" and "It is everybody's responsibility to save water". The water equipment is managed by designated personnel for regular equipment cleaning, maintenance and inspection. In case of water leakage or aging of equipment and accessories found during the inspection, timely repair or replacement will be made to reduce water consumption. Our production process does not involve industrial water use, does not generate process wastewater, and does not involve discharge of poisonous and hazardous substance or special substance, therefore having no serious impacts on land-based rivers, lakes, groundwater, and glaciers. The sewage discharge concentration meets the requirements of the local Standard of Water Pollutant Emission Limit.

Green Office

The Group proactively promotes a green office, encouraging the use of electronic files in its daily operation by replacing printed filing with computer archiving, staring to use the CloubHub OA electronic approval system on 22nd January 2018 and implementing paperless office and resources sharing to reduce the use of printed files. Employees are required to use double-sided printing and recycle and re-use single-sided printed paper to achieve paper saving.

Packaging Material Waste Reduction Policy

The Group advocates reducing excessive use of packaging materials to minimize the impacts of the products on the environment throughout their life cycles. In the product development stage, graphic designers must incorporate the green packaging concept into the packaging design process. During the material sourcing process, preference is given to production technologies featuring less environmental pollution and waste generation whenever possible, and has been improved to reduce waste pollution and energy and resource consumption.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.1 Environmental *(Continued)*

3.1.2 Resources Usage (Continued)

Connection between Environmental Protection Law and the Group

China has implemented the Environmental Protection Law since 1st January 2018 to strengthen pollution control and environmental protection, and to regulate and levy taxes on companies that discharge solid waste directly into the environment. During production, the Group uses packaging materials for finished products that contain elements which fall within the scope of solid waste discharge, so it is also subject to the corresponding taxes.

The table below sets out the total volume and density of major resources and packaging materials for finished products of the Group in the 2018 and 2017 reporting years:

	#Beijing Headquarters		*Zhongshan Factory	
	2018	2017	**2018**	2017
Production volume (unit)	**0**	0	**264,476**	1,059,062
Gasoline consumption of mobile sources (litre)	**9,194.9**	8,384.86	**2,772**	3,816.91
Consumption density (litre/unit)	**0**	0	**0.01**	0.004
Diesel oil consumption of mobile sources (litre)	**0**	0	**1,676.48**	0
Consumption density (litre/unit)	**0**	0	**0.006**	0
Facility electricity consumption (1,000 kWh)	**199,489.35**	268,055	**506,075.71**	1,614,156.28
Consumption density (1,000 kWh/unit)	**0**	0	**1.91**	1.52
Water consumption (cubic meter)	**2,285.32**	2,735.52	**7,091.9**	12,348.35
Consumption density (cubic meter/unit)	**0**	0	**0.03**	0.01
Total packaging materials for finished products (plastics) (tonne)	**0**	0	**4.322**	156.2
Consumption density (kg/unit)	**0**	0	**0.02**	0.15
Total packaging materials for finished products (paper) (tonne)	**0**	0	**1.16**	5,346
Consumption density (kg/unit)	**0**	0	**0.004**	5.05

Note:

* As Zhongshan Factory has outsourced the entire production process since July 2018 while the office in the factory still maintain daily operations, the production data for 2018 differs from that of 2017.

* The total volume of wood and other packaging materials for finished products of Zhongshan Factory is not included due to their insignificant consumption volume.

The Beijing Headquarters is engaged in office operation, which does not involve packaging materials for finished products

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.1 Environmental *(Continued)*

3.1.3 Environmental and Natural Resources

The Group understands that both the society and its customers are concerned about environmental issues and actively promotes green manufacturing and green procurement policies:

Green Procurement

In the production process, the Group has always been advocating environmental procurement. Guided by the Supplier Development, Appraisal, and Control Procedures, equipment is assessed and selected jointly by various departments of the Zhongshan Factory, based on the major principles including stable performance, low power, low emissions and high efficiency. After the equipment is selected, approval is required from a management representative before it can be purchased. For new suppliers, under the same commercial terms (such as cost, quality, Restriction of Hazardous Substances ("RoHS"), technology and services, environmental protection, etc.), those better meeting environmental protection requirements will be considered first. Preference is given to local suppliers to reduce transportation time and distance. Environmental equipment (such as energy-efficient and eco-friendly lights, water-cooled air conditioning system, environmental air-source heat pump) is also adopted as far as it is suitable for the factory. On average, power consumption is 70% less than before after the installation of such equipment, demonstrating our efforts to minimize environmental impact of greenhouse gas emissions.

Selection of Environmentally Friendly Materials

In order to ensure that the hazardous materials contained in the products meet the international requirements, all the materials used by the Group's Zhongshan Factory must comply with the RoHS Management Regulations governing hazardous substances in electronic and electrical equipment. In this regard, the Group has developed corresponding rules and principles to comprehensively take RoHS-compliant materials as its raw materials for production, so as to ensure that its electronic and electrical products comply with the RoHS regulations.

Green Operations

The Group also emphasizes green operations. The equipment and facilities in the Zhongshan Factory such as air conditioners, bench drills and SMT placement machines are prone to generate serious noise as well as air pollution, which may cause interference to the community. The Human Resources Department is responsible for contacting and hiring qualified environmental consultant to monitor the noise level at the boundaries of the factory. The noise-generating equipment, facilities and projects must be equipped with the necessary noise pollution control facilities, and the operators must take the necessary protective measures. The responsible departments must strictly implement appropriate operating procedures and maintenance systems for equipment, facilities and projects that may cause noise pollution. If an abnormality is found during measuring or inspection processes, the reasons will be promptly identified and proper countermeasures will be taken. The Group tries to avoid excessive noise as much as possible. Investigation and forecast are conducted on the facilities in accordance with the relevant laws and regulations such as Emission Standard for Industrial Enterprises Noise at Boundary to avoid excessive noise.

Advocating Green Culture

In addition to green operations at the factory, the Group also places great emphasis on resource consumption in offices to ensure minimal environmental impact of its operations. The management of resource consumption comprises three aspects, namely staff awareness enhancement, administrative measures and equipment management. Energy conservation notices are circulated to all office employees of the Group, and signs are posted to remind them to save energy such as turning off the lights in the respective areas before getting off duty.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.2 Social

3.2.1 Employment

The Group has incorporated the requirements the local employment regulations of the jurisdictions where it operates into a series of employment policies to ensure employees are treated in a fair and reasonable manner.

Recruitment, Promotion and Equal Opportunity Policies

The Group complies with national regulations and policies, and treats all job applicants equally without any unequal restrictions and unequal preferential policies and provides equal opportunities for all job applicants. Moreover, the recruitment process is open and transparent and is monitored with no backroom deals allowed. According to related systems and methods issued by the Group including Management Regulations on Prohibiting Discrimination and Human Resources Management Procedures，the Company follows the principles of fairness, equality, and openness to recruit outstanding talents through a variety of methods.

Moreover, the Group treats all employees equally and consideration for issues such as employment, salary, benefit package, bonus, promotion and dismissal are solely based on their education background, professional qualifications and competency, and male and female employees are treated equally.

Work and Life Balance

Employees are the most important core asset of the Group. In addition to operating its business diligently and attending to the needs of employees, the Group pays close attention to employees' work and life balance. Employees' balanced life style can improve the overall operating efficiency of the Group Therefore, the Group shall comply with the Labour Contract Law People's Republic of China to ensure proper employees' working hours and rest days.

Compensation and Retirement Arrangement

As the manufacturing and production processes of the Zhongshan Factory were outsourced to a contractor in July 2018, the factory began the mass lay-off plan on 11th June 2018. The Group initiated compensation and retirement arrangements, including the payment of compensation and damages and plans for retirement arrangements, in accordance with the Labor Law of the People's Republic of China and the Labor Contract Law of the People's Republic of China and other relevant laws and regulations.

Anti-discrimination

In all aspects of recruitment, promotion, development, punishment, welfare, and termination of labor contracts, the Group prohibits any discrimination rising from race, color, nationality, language, wealth, social origin, social status, age, gender, sexual orientation, disability, pregnancy, beliefs, political affiliation, members of communities, or marital status, so as to ensure the diversity of employees.

Employee Benefits

The Group's basic employee benefits include medical insurance, statutory leave and vacation, and paternity and maternity leaves additional to the legal regulations. The Beijing Headquarters maintains five social insurances and one housing fund, namely, endowment insurance, medical insurance, work injury insurance, unemployment insurance, maternity insurance and housing provident fund.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.2 Social *(Continued)*

3.2.2 Health and Safety

The Group is committed to achieving the goal of zero accident by preventing the occurrence of occupational diseases and industrial casualties with different measures.

Occupational Health and Safety

In accordance with the requirements of the law, the Group has developed production safety management procedures, especially during the production operation of the Zhongshan Factory. All departments must set up a safety team to provide safety training for employees in the department, establish safety regulations and operation procedure, and implement the safety-related directives from the Safety Team to ensure production safety.

The Safety Team is led by the head of each department and is teamed with a part-time production safety officer (assumed by the supervisor). Each floor and production room must be equipped with a safety specialist. The production safety officer of each production department should assist the department supervisor in implementing the labour protection laws and the Group's Production Safety Management Regulations, as well as addressing the daily production safety issues and production safety monitoring work.

New employees, temporary workers and interns must go through the three-level production safety training (namely, the manufacturing department, the production room or team, and the production position) before they are admitted to operational positions. Workers who change their job nature must go through the safety training again and pass the safety evaluation before the formal transition. Special job type workers who are engaged in pressure vessels, elevators, electrical equipment, vehicle driving and chemical management must hold a statutory license before they can operate independently. For special types of in-service employees, regular safety training must be arranged.

Safe Working Environment

The Group attaches great importance to workplace safety. The internal requirements include the following:

1. The layout of the workplace should be reasonable, kept clean and tidy;

2. The aisles should be smooth and even and there should be sufficient lighting;

3. Visible safety signs must be posted near pits, trenches, pools, walking boards, entrances and exits of elevators and other dangerous places that are set up for production;

4. Appropriate and effective protective measures must be taken at dangerous workplaces with high temperature, low temperature, moisture, static electricity, etc.; and

5. Fire facilities must be installed and fire extinguishers must be put in the workplace.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.2 Social *(Continued)*

3.2.2 Health and Safety (Continued)

Employee Safety Training

The Group has developed appropriate training guidelines to ensure effective implementation of procedures and safe equipment operation, mainly including proper use of protective gears, production safety and occupational health knowledge and case studies, position/equipment specific safe operation. For special positions requiring relevant qualifications, the operators must complete special training sessions. Where necessary, the Group also arranges regular fire and emergency drills for employees to familiarize them with escape routes during emergencies.

The Group has established rules on the use of protective supplies, provides free personal protective gears to employees, and instructs them how to wear properly in order to minimize the impact on their health. Employees who do not understand how to use protective gears and their functions are not allowed to operate the equipment formally.

However, as the Group's manufacturing and production operation procedures were outsourced to a contractor in 2018, we did not offer the above training courses to employees.

Psychological Support for Employees

Zhongshan Factory began its mass lay-off plan in June 2018. In this process, the Group also paid attention to the psychological impact on employees, and therefore engaged a team of professional lawyers to provide legal advice to employees, so that employees can promptly adjust emotions and relieve stress. We also actively appeased the remaining employees to properly complete the subsequent production switch and partial asset disposal.

3.2.3 Development and Training

Career Development

The Group has developed a series of career development plans for employees. The Zhongshan Factory implements the Multi-Skilled Employee Training and Examination Programme which promotes the multi-functions of each position and the employees' skills and helps new employees adapt to the work environment with the help of senior employees. The Zhongshan Factory also requires employees to receive relevant training before going into or transferring to a new position. Employees are arranged to receive training and evaluations on other jobs at the same production line based on their competence. The employees will be assigned to different positions if needed. This helps employees to acquire more skills, and the multi-skill subsidies will also increase in order to motivate employees to participate.

Targeted Staff Training Program

According to its Training Management Regulations, the Group has developed an Annual Training Plan to provide job skill training and annual training for employees in different positions that can help employees to develop different kinds of skills.

However, as the Group's manufacturing and production operation procedures were outsourced to a contractor in 2018, we did not offer the above training courses to employees.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.2 Social *(Continued)*

3.2.4 Labour Standards

Child Labour Prevention

Pursuant to related systems and methods issued including Management Regulations on Child Labour and Underage Worker and Human Resources Management Procedures, the Group prohibits recruitment of child labourers and will not tolerate forced labour. In accordance with the Regulations of the People's Republic of China on Special Protection of Under-age Workers and the corresponding laws and regulations in various parts overseas, the Group verifies the valid identity certificates of applicants in various aspects such as employee recruitment, on-the-job approval, and on-duty reporting.

Forced Labour Prevention

During the employment of employees, the Group respects the freedom of employees in respect of employment, resignation, overtime work, action and other aspects in accordance with the Labour Law of the People's Republic of China. The Group prohibits any form of forced labour, including contract labour and bonded labour, and never forces employees to work overtime.

3.2.5 Supply Chain Management

Supplier Codes of Conduct

The Group has developed the Control Procedures for Supplier Development and Review which set out the expectations and requirements of the Group on suppliers and their employees. This policy covers a range of aspects such as product cost, quality, environmental protection, technology and business ethics, which are also important criteria in supplier selection. The Group has a system for selecting and evaluating suppliers. In addition to commercial considerations, the Group also evaluates the qualifications of new suppliers and regularly reviews performance of the existing major suppliers.

Regarding product warranties, whether during its own production operation or in outsourcing works, the Group's Zhongshan Factory will regulate suppliers' quality of products using different agreements with the suppliers, including the Quality Assurance Agreement, the PCN Agreement and the RoHS Agreement, to ensure that the quality meets required standards. These agreements regulate suppliers in different areas, so that the final products not only meet the requirements of laws and regulations, but also satisfy the needs of customers.

Supplier Selection Procedure

All suppliers review processes are firstly jointly verified by the Quality Assurance Department, Procurement Division and Engineering Division to ensure the integrity of the above review information. Upon verification of a supplier, the Quality Assurance Department, Procurement Division and Engineering Division will sign on the Supplier Review Summary. This form takes effect only after the management representative has signed on it.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.2 Social *(Continued)*

3.2.5 Supply Chain Management (Continued)

Supplier Selection Criteria

The Group's Zhongshan Factory has set up an Incoming Material Inspection Department to evaluate the quality, environmental protection and social responsibility performance of new suppliers and existing suppliers on a monthly basis. It consists of a series of supplier evaluation methods to conduct comprehensive assessment of the suppliers' capability to assure quality and address environmental issues on site. It helps suppliers to identify problems or environmental/quality risks in the production process in order to improve their quality and environmental performance.

Connection Between Conflict Minerals and the Group

The exploitation of rare metals such as Au, Ta, Sn, and W in the Democratic Republic of Congo and its adjacent countries and territories has caused serious human rights and environmental problems. Some of the mining activities in these areas are related to conflicting armed groups, resulting in long-term instability in the region, known as "conflict minerals," which can be used in electronic products.

The Group inevitably involves conflict mineral issues in the manufacturing process. In response, we actively advocate not to use minerals from conflict areas or high-risk areas, provided that the cost prices of certain parts such as the mainboard, resistor and capacitor will be significantly higher.

3.2.6 Product Responsibility

The Group is well aware that improving the health and safety performance of products and services is the key to long-term business development. In countries where the products are produced and sold, the Group strictly complies with local laws and regulations to assure that its products meet relevant requirements and the needs of the customers, ensuring that high-quality products are provided to the customers.

Product Quality Assurance

The Group strictly monitors the quality of its products, and conduct quality control throughout the whole production process from input of raw materials to delivery of products. During the production, a 100% routine inspection is conducted to ensure the quality of products, and employees are required to stay cautious in the production process to avoid defective products. By going through the incoming materials inspection in accordance with Management Regulations on Routine Inspection and Verification Inspection, we could ensure all selected parts and components comply with international and local standards before mass production, whereas the in-process quality audit could constantly improve our manufacturing process, production efficiency and consistency. Through the finished goods quality assessment, we also hope to verify the reliability and compatibility of our products while ensuring our products meet the required specification and are free from defects at the time of delivery. The Group builds trust with customers and ensure our products meet their expectations through the after-sales management.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.2 Social *(Continued)*

3.2.6 Product Responsibility (Continued)

Product Safety Assurance Policy

The Group conducts a full safety inspection on the products to ensure product safety, and laboratories that have safety inspection qualifications are arranged for testing and inspection every two years.

Fair Marketing

The Group strives to ensure that the product information on the promotional websites and other promotional materials are true and accurate. Some of the Group's products come with operating instructions, and the content of the instructions is based on reliable supporting evidence. In addition, in accordance with the Advertisement Law, Group requires that when salespersons are promoting products, the information they provide must come from the product advantages confirmed by the Group and must not involve negative statements related to competitors or their products to prevent customers from being misled at the time of purchase.

After-sales Service Policy

The Group generally provides free maintenance service from 13 months to 36 months after the product is purchased, and a 24-hour service follow-up is provided for products under warranty.

Customer Data Protection

Given the importance of protecting customer data, the Group strictly manages and keeps confidential customer intellectual property related information and documents such as drawings and technical specifications in accordance with the requirements of the internally issued Non-Disclosure Agreement. There files are managed and stored by a designated department. Without permission, employees must not copy or privately save or take the information out of the office.

During the Reporting Period, the Group did not find that any products sold were required to be returned for safety and health reasons.

Protection of Intellectual Property Rights

The Group only uses products designed by the Group and will not plagiarize the design of other organizations. In the Non-Disclosure Agreement entered into with employees, employees are required to abstain from plagiarism during and after their employment and required to maintain confidentiality of the Group's technology and trade secrets, as all products are assets of the Group.

3. MILESTONES OF SUSTAINABLE DEVELOPMENT *(Continued)*

3.2 Social *(Continued)*

3.2.7 Anti-corruption Policy

To enhance corporate governance, the Group implements internal control and audit supervision to reduce operating risks. The Group has established an Internal Audit system in accordance with relevant regulations, laws and internal rules such as the Audit Law of the People's Republic of China and basic management systems under Regulations of the National Audit Office on Internal Audit Work the Basic Management System of the Audit Office on Internal Auditing. Internal audit is an independent consultation, evaluation, control and supervision activity carried out within the Group. Through systematic and standardized methods, the Group reviews and evaluates the operating activities and objective achievement, the establishment and implementation of internal control, the utilization of resources, etc. of various departments of the Company, and provides relevant analysis, advice, assistance, and supervision for management personnel to perform their duties in an earnest manner.

In respect of the prevention of corruption and observation of business ethics, the Group has a system to regulate the conduct of employees. The Zhongshan also supervises employees in accordance with Factory's Reward and Discipline Management Regulations. For any employee that has any violation of business ethics or personal conducts, the Group will activate the discipline mechanism to prevent bribery, extortion, and money-laundering.

The Group engages a third-party auditor to conduct auditing, such as financial audit. The independent agency can effectively audit the Group to verify that its internal financial records comply with the financial requirements of relevant legislations, including their authenticity and evidence to prove that the Group's operations are true and impartial. In addition, the Group has always been committed to the core values of fair trade and operating with integrity.

3.2.8 Community Investment

Although the Group underwent a corporate transformation in 2018, we still paid attention to promoting environmental protection in the community by sparing no effort in sending some employees to participate in tree planting activities to fulfill our environmental protection and carbon reduction responsibilities. The Group will continue to pay attention to the development of the community in which we operate and adhere to the corporate spirit of "giving back to the society", in the hope of contributing to different areas of social contribution.

Independent Auditor's Report

MAZARS CPA LIMITED
中審眾環（香港）會計師事務所有限公司
42nd Floor, Central Plaza
18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場42樓
Tel 電話: (852) 2909 5555
Fax 傳真: (852) 2810 0032
Email 電郵: info@mazars.hk
Website 網址: www.mazars.hk

TO THE SHAREHOLDERS OF
YUXING INFOTECH INVESTMENT HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Yuxing InfoTech Investment Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 57 to 143, which comprise the consolidated statement of financial position as at 31st December 2018, and the consolidated income statement, the consolidated statement of 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 financial position of the Group as at 31st December 2018, and of its financial performance and 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 (the "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 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.

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KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows:

Key audit matter	How the matter was addressed in our audit
Fair value of investment properties	
As at 31st December 2018, investment properties held by the Group were stated at fair value of approximately HK$434,003,000. Significant estimation and judgement are required by management to determine the fair value of the investment properties, including the determination of valuation techniques and the selection of financial inputs in the model. Management has engaged independent professional valuers whose work has been relied on in the estimation of the fair value of the investment properties. *Relevant disclosures are made in notes 2(f), 4, 7 and 16 to the consolidated financial statements.*	Our key procedures in relation to management's estimation of the fair value of investment properties included: – Evaluating the competence, capabilities and objectivity of the valuers; – Assessing the appropriateness of the work of the valuers by making enquiries on the bases of valuation and obtaining corroborative evidence on the input data; and – Considering the relevance and reasonableness of key assumptions and methods used, and the relevance and accuracy of the source data used.

MAZARS

KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows: *(Continued)*

Key audit matter	How the matter was addressed in our audit
Fair value of financial assets at fair value through profit or loss – private investment funds	
As at 31st December 2018, private investment funds held by the Group were classified as financial assets at fair value through profit or loss and measured at fair value of approximately HK$269,954,000. Significant estimation and judgement are required by management to determine the fair value of the private investment funds, including the determination of valuation techniques and the selection of financial inputs in the model. Management has relied on the valuation performed by the investment managers and an independent professional valuer in the estimation of the fair value of the private investment funds. *Relevant disclosures are made in notes 2(i), 4, 7 and 20 to the consolidated financial statements.*	Our key audit procedures in relation to management's estimation of the fair value of private investment funds included: – Evaluating the competence, capabilities and objectivity of the investment managers and the valuer; – Assessing the appropriateness of the work of the investment managers and the valuer by making enquiries on the bases of valuation and obtaining corroborative evidence on the input data; and – Considering the relevance and reasonableness of key assumptions and methods used, and the relevance and accuracy of the source data used.

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KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows: *(Continued)*

Key audit matter	How the matter was addressed in our audit
Impairment in respect of trade and other receivables and loans receivable	
As at 31st December 2018, the Group had trade and other receivables and loans receivable amounting to approximately HK$199,135,000 and HK$119,937,000 respectively. Loss allowance amounting to approximately HK$897,000 and HK$8,467,000 has been provided on trade receivables and other receivables respectively. No loss allowance has been recognised on the loans receivable. Loss allowances for trade and other receivables and loans receivable are based on management's estimate of the lifetime or 12-month expected credit losses which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' and debtors' repayment history and financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. Relevant disclosures are made in note *2(i), 4, 6(a), 23, 24 and 25.*	Our key procedures in relation to management's impairment assessment on trade and other receivables and loans receivable included: – Assessing whether items in the trade receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices on a sample basis; – Assessing the reasonableness of management's loss allowance estimates on trade and other receivables and loans receivable by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; and – Reviewing and testing the Group's credit control policy over extension of existing loans and monitoring of interest repayments according to the terms as stipulated in the loan agreements.

Independent Auditor's Report

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OTHER INFORMATION

The Directors of the Company are responsible for the other information. The other information comprises the information included in this annual report but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, 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.

MAZARS

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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.

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 20th March 2019

The engagement director on the audit resulting in this independent auditor's report is:
Eunice Y M Kwok
Practising Certificate number: P04604

Consolidated Income Statement

For the year ended 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	9	**400,843**	602,872
Cost of sales		**(373,154)**	(573,806)
Gross profit		**27,689**	29,066
Other revenue and net (loss)/income	9	**(239,076)**	288,683
Distribution and selling expenses		**(15,404)**	(16,413)
General and administrative expenses		**(131,982)**	(123,740)
Other operating expenses		**(13,690)**	(9,438)
Net changes in fair value of investment properties	16	**39,325**	1,923
(Loss)/Profit from operations	10	**(333,138)**	170,081
Finance costs	13	**(70,957)**	(76,341)
(Loss)/Profit before tax		**(404,095)**	93,740
Income tax credit	14	**6,199**	452
(Loss)/Profit for the year		**(397,896)**	94,192
(Loss)/Profit attributable to:			
Owners of the Company		**(397,896)**	94,192
Non-controlling interests		**–**	–
		(397,896)	94,192
		HK$	HK$
(Loss)/Earnings per share	15		
– Basic		**(0.22)**	0.05
– Diluted		**(0.22)**	0.05

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2018

	2018 HK$'000	2017 HK$'000
(Loss)/Profit for the year	**(397,896)**	94,192
Other comprehensive (loss)/income:		
Item that will not be reclassified to profit or loss:		
Revaluation of property, plant and equipment upon transfer to investment properties (net of tax)	**5,705**	1,571
Items that are reclassified or may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
Change in fair value during the year	**–**	426,721
Less: Reclassification of net changes in fair value to profit or loss upon disposal	**–**	(125,427)
Exchange differences arising on translation of the PRC subsidiaries	**(35,456)**	30,841
Other comprehensive (loss)/income for the year (net of tax)	**(29,751)**	333,706
Total comprehensive (loss)/income for the year	**(427,647)**	427,898
Total comprehensive (loss)/income attributable to:		
Owners of the Company	**(427,647)**	427,882
Non-controlling interests	**–**	16
	(427,647)	427,898

Consolidated Statement of Financial Position

As at 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Investment properties	16	**434,003**	585,131
Property, plant and equipment	17	**218,223**	34,801
Prepaid lease payments	18	**10,036**	10,890
Available-for-sale financial assets	19	**–**	804,662
Financial assets at fair value through profit or loss	20	**368,373**	–
Deferred tax assets	14	**18,782**	–
		1,049,417	1,435,484
CURRENT ASSETS			
Inventories	22	**12,931**	81,997
Loans receivable	23	**119,937**	125,325
Trade and other receivables	24	**199,135**	175,545
Prepaid lease payments	18	**353**	370
Available-for-sale financial assets	19	**–**	74,555
Financial assets at fair value through profit or loss	20	**654,396**	743,463
Investment in an insurance contract	25	**–**	8,467
Income tax recoverable		**661**	606
Pledged bank deposits	33	**254,660**	1,030,521
Cash and bank balances		**172,514**	105,432
		1,414,587	2,346,281
CURRENT LIABILITIES			
Trade and other payables	26	**199,214**	215,424
Dividend payables		**31**	31
Bank and other loans	27	**245,251**	632,867
Convertible bonds	28	**–**	456,249
Financial liabilities at fair value through profit or loss	20	**3,218**	50,057
Income tax payable		**8**	307
		447,722	1,354,935
NET CURRENT ASSETS		**966,865**	991,346
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,016,282**	2,426,830
NON-CURRENT LIABILITIES			
Deferred tax liabilities	14	**28,350**	11,251
NET ASSETS		**1,987,932**	2,415,579
EQUITY			
Capital and reserves attributable to owners of the Company:			
Share capital	29	**45,077**	45,077
Reserves	30	**1,942,855**	2,370,502
TOTAL EQUITY		**1,987,932**	2,415,579

Approved and authorised for issue by the Board on 20th March 2019 and signed on its behalf by:

Li Qiang
Director

Shi Guangrong
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2018

	Attributable to owners of the Company													
	Share capital HK$'000	Share premium HK$'000	Statutory reserves HK$'000	Contributed surplus HK$'000	Share option reserves HK$'000	Investment revaluation reserves HK$'000	Convertible bond reserves HK$'000	Property revaluation reserves HK$'000	Translation reserves HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As at 1st January 2017	45,077	133,249	8,668	234,621	70,850	(24,446)	–	17,264	31,312	(1,113)	1,443,355	1,958,837	1,036	1,959,873
Profit for the year	–	–	–	–	–	–	–	–	–	–	94,192	94,192	–	94,192
Other comprehensive income:														
Revaluation of property, plant and equipment upon transfer to investment properties (net of tax)	–	–	–	–	–	–	–	1,571	–	–	–	1,571	–	1,571
Change in fair value of available-for-sale financial assets	–	–	–	–	–	426,721	–	–	–	–	–	426,721	–	426,721
Reclassification of net changes in fair value of available-for-sale financial assets to profit or loss upon disposal	–	–	–	–	–	(125,427)	–	–	–	–	–	(125,427)	–	(125,427)
Exchange differences arising on translation of PRC subsidiaries	–	–	–	–	–	–	–	–	30,825	–	–	30,825	16	30,841
Total other comprehensive income	–	–	–	–	–	301,294	–	1,571	30,825	–	–	333,690	16	333,706
Total comprehensive income for the year	–	–	–	–	–	301,294	–	1,571	30,825	–	94,192	427,882	16	427,898
Transactions with owners:														
Contributions and distributions														
Share options lapsed	–	–	–	–	(1,411)	–	–	–	–	–	1,411	–	–	–
Issue of convertible bonds	–	–	–	–	–	–	37,676	–	–	–	–	37,676	–	37,676
Change in ownership interest														
Reclassification adjustment of reserves related to a disposed subsidiary	–	–	–	–	–	–	–	–	(9,929)	1,113	–	(8,816)	(1,052)	(9,868)
Total transactions with owners	–	–	–	–	(1,411)	–	37,676	–	(9,929)	1,113	1,411	28,860	(1,052)	27,808
As at 31st December 2017 and as at 1st January 2018	45,077	133,249	8,668	234,621	69,439	276,848	37,676	18,835	52,208	–	1,538,958	2,415,579	–	2,415,579
Change in accounting policy on adoption of HKFRS 9	–	–	–	–	–	(276,848)	–	–	–	–	276,848	–	–	–
As at 1st January 2018 (as restated)	45,077	133,249	8,668	234,621	69,439	–	37,676	18,835	52,208	–	1,815,806	2,415,579	–	2,415,579
Loss for the year	–	–	–	–	–	–	–	–	–	–	(397,896)	(397,896)	–	(397,896)
Other comprehensive loss:														
Revaluation of property, plant and equipment upon transfer to investment properties (net of tax)	–	–	–	–	–	–	–	5,705	–	–	–	5,705	–	5,705
Exchange differences arising on translation of PRC subsidiaries	–	–	–	–	–	–	–	–	(35,456)	–	–	(35,456)	–	(35,456)
Total other comprehensive loss	–	–	–	–	–	–	–	5,705	(35,456)	–	–	(29,751)	–	(29,751)
Total comprehensive loss for the year	–	–	–	–	–	–	–	5,705	(35,456)	–	(397,896)	(427,647)	–	(427,647)
Transactions with owners:														
Contributions and distributions														
Share options lapsed	–	–	–	–	(13,827)	–	–	–	–	–	13,827	–	–	–
Redemption of equity component of convertible bonds upon maturity	–	–	–	–	–	–	(37,676)	–	–	–	37,676	–	–	–
Total transactions with owners	–	–	–	–	(13,827)	–	(37,676)	–	–	–	51,503	–	–	–
As at 31st December 2018	**45,077**	**133,249**	**8,668**	**234,621**	**55,612**	**–**	**–**	**24,540**	**16,752**	**–**	**1,469,413**	**1,987,932**	**–**	**1,987,932**

Consolidated Statement of Cash Flows

For the year ended 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
(Loss)/Profit before tax		**(404,095)**	93,740
Adjustments for:			
Exchange differences		**(23,545)**	(17,736)
Interest income		**(18,771)**	(14,737)
Imputed interest income from investment in an insurance contract		**–**	(171)
Interest expenses		**70,957**	76,341
Dividend income		**(12,470)**	(9,863)
Amortisation of prepaid lease payments		**366**	357
Depreciation		**5,548**	6,495
Net changes in fair value of investment properties		**(39,325)**	(1,923)
Loss on disposal of property, plant and equipment		**1,115**	122
Gain on disposal of available-for-sale financial assets		**–**	(164,087)
Impairment loss on investment in an insurance contract due to early redemption		**–**	2,882
Net fair value change on financial liabilities at fair value through profit or loss		**(4,567)**	(5,336)
Gain on derecognition of financial liabilities upon redemption of convertible bonds issued by the Company		**(45,490)**	–
Gain on disposal of a subsidiary		**–**	(9,868)
OPERATING LOSS BEFORE CHANGES IN WORKING CAPITAL		**(470,277)**	(43,784)
Decrease/(Increase) in inventories		**65,411**	(27,264)
Increase in trade and other receivables		**(21,290)**	(22,822)
Decrease/(Increase) in financial assets and liabilities at fair value through profit or loss		**603,130**	(299,586)
(Decrease)/Increase in trade and other payables		**(10,930)**	69,141
CASH GENERATED FROM/(USED IN) OPERATIONS		**166,044**	(324,315)
Income tax paid		**(537)**	(1,816)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**165,507**	(326,131)
INVESTING ACTIVITIES			
Purchase of available-for-sale financial assets		**–**	(249,500)
Purchase of property, plant and equipment		**(15,992)**	(2,164)
Purchase of investment property		**–**	(109,200)
Decrease/(Increase) in pledged bank deposits with original maturities over three months		**855,708**	(590,130)
Proceeds from disposal of available-for-sale financial assets		**–**	408,830
Interest received		**22,669**	7,796
Increase in loans receivable		**–**	119,754
Dividend received		**12,470**	9,863
Proceeds from disposal of property, plant and equipment		**4,266**	63
Net cash outflow on acquisition of subsidiaries		**–**	(330,862)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**879,121**	(735,550)

Consolidated Statement of Cash Flows

For the year ended 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES	31		
New bank and other loans raised		**84,250**	300,749
Repayment of bank loans		**(452,911)**	(133,507)
Net proceeds from issue of convertible bonds		**–**	500,191
Redemption of convertible bonds		**(504,000)**	–
Interest paid		**(23,206)**	(27,214)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		**(895,867)**	640,219
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**148,761**	(421,462)
CASH AND CASH EQUIVALENTS AT BEGINNING OF REPORTING PERIOD		**185,290**	603,524
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(734)**	3,228
CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD		**333,317**	185,290
Analysis of the balances of cash and cash equivalents:			
Funds held by securities brokers	(a)	**46,494**	2,748
Time deposits	(b)	**50,440**	17,413
Cash at bank and in hand	(b)	**75,580**	85,271
Pledged bank deposits with maturity less than three months	(c)	**160,803**	79,858
		333,317	185,290

Notes:

(a) At the end of the reporting period, there were funds held by securities brokers of approximately HK$46,494,000 *(2017: approximately HK$2,748,000)* for securities trading.

(b) At the end of the reporting period, cash at bank earned interest at floating rates based on daily bank deposit rates. Short-term time deposits are made between two weeks to three months depending on the immediate cash requirement of the Group and earn interest at a range of 1.35% and 2.70% *(2017: 1.35% and 1.65%)* per annum.

(c) At the end of the reporting period, the bank deposits of approximately HK$160,803,000 *(2017: approximately HK$79,858,000) were* pledged to secure a loan facility which had an original maturity of less than three months and therefore have been classified as cash equivalents in the consolidated statement of cash flows.

(d) At the end of the reporting period, the pledged bank deposits comprised approximately HK$93,857,000 and HK$Nil *(2017: approximately HK$591,768,000 and HK$358,895,000)* which had an original maturity of more than three months but within one year and more than one year respectively when acquired and therefore has not been classified as cash equivalents in the consolidated statement of cash flows.

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

Yuxing InfoTech Investment Holdings Limited ("the Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are detailed in note 39. The Company and its subsidiaries are herein collectively referred to as the "Group".

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements except for the adoption of the following new/revised HKFRSs which are relevant to the Group and effective from the current year. A summary of the principal accounting policies adopted by the Group is set out below.

Adoption of new/revised HKFRSs

The Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group:

Amendments to HKAS 40	*Transfers of Investment Property*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*

Amendments to HKAS 40: Transfers of Investment Property

The amendments clarify that, to transfer to or from, investment properties, there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs *(Continued)*

HK(IFRIC)-Int 22: Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognised the non-monetary asset or non-monetary liability arising from the advance consideration.

The adoption of the interpretation does not have any significant impact on the consolidated financial statements.

HKFRS 9: Financial Instruments

The following terms are used in these consolidated financial statements:

- FVPL: fair value through profit or loss
- FVOCI: fair value through other comprehensive income
- Designated FVOCI: equity instruments measured at FVOCI
- Mandatory FVOCI: debt instruments measured at FVOCI

HKFRS 9 replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1st January 2018. It introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment for financial assets and hedge accounting.

In accordance with the transitional provisions in HKFRS 9, comparative information has not been restated and the Group has applied HKFRS 9 retrospectively to financial instruments that existed at 1st January 2018 (i.e. the date of initial application), except as described below:

(a) The following assessments are made on the basis of facts and circumstances that existed at the date of initial application:

    (i) the determination of the business model within which a financial asset is held;

    (ii) the designation of financial assets or financial liabilities at FVPL or, in case of financial assets, at Designated FVOCI; and

    (iii) the de-designation of financial assets or financial liabilities at FVPL.

    The above resulting classification shall be applied retrospectively.

(b) If, at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, a loss allowance is recognised at an amount equal to lifetime expected credit losses ("ECL") at each reporting date until the financial instrument is derecognised unless that financial instrument has low credit risk at a reporting date.

(c) For investments in equity instruments that were measured at cost under HKAS 39, the instruments are measured at fair value at the date of initial application.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs *(Continued)*

HKFRS 9: Financial Instruments (Continued)

Differences between the previous carrying amounts under HKAS 39 and the current carrying amounts upon adoption of HKFRS 9 are recognised directly in components of equity at 1st January 2018 as summarised below:

	Investment revaluation reserves HK$'000	Retained profits HK$'000	Total HK$'000
As at 1st January 2018			
Reclassification	(276,848)	276,848	–
(Decrease)/Increase	(276,848)	276,848	–

The adoption of HKFRS 9 has no significant effect on the classification and measurement of the Group's financial liabilities.

The following table reconciles the original measurement categories and carrying amounts under HKAS 39 to the new measurement categories and carrying amounts under HKFRS 9 for each class of the Group's financial assets as at 1st January 2018.

Measurement category under HKAS 39	Note	Carrying amount under HKAS 39 HK$'000	Measurement category and carrying amount under HKFRS 9	
			Amortised cost HK$'000	FVPL HK$'000
Financial assets at FVPL				
Listed equity securities held for trading	(i)	257,109	–	257,109
Private investment funds held for trading	(i)	59,946	–	59,946
Unlisted debt securities held for trading	(i)	117,250	–	117,250
Money market funds designated upon initial recognition	(ii)	309,158	–	309,158
Available-for-sale financial assets, at fair value				
Listed equity securities not held for trading	(iii)	276,590	–	276,590
Private investment funds not held for trading	(iv)	524,627	–	524,627
Available-for-sale financial assets, at cost				
Unlisted equity securities not held for trading	(v)	78,000	–	78,000
Loans and receivables	(vi)			
Loans receivable		125,325	125,325	–
Trade and other receivables		175,545	175,545	–
Investment in an insurance contract		8,467	8,467	–
Pledged bank deposits		1,030,521	1,030,521	–
Cash and bank balances		105,432	105,432	–
		3,067,970	1,445,290	1,622,680

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs *(Continued)*

HKFRS 9: Financial Instruments (Continued)

Notes:

(i) The listed equity securities, private investment funds and unlisted debt securities that were previously classified as financial assets at FVPL amounted to approximately HK$257,109,000, HK$59,946,000 and HK$117,250,000 respectively continue to be classified as financial assets at FVPL because they are held for trading.

(ii) The investment in unlisted money market funds amounted to approximately HK$309,158,000 that was previously designated as financial assets at FVPL under HKAS 39 because it is managed on a fair value basis and its performance was monitored on this basis. This asset continues to be measured at FVPL under HKFRS 9.

(iii) The listed equity securities that were previously classified as available-for-sale financial assets measured at fair value amounted to approximately HK$276,590,000 are reclassified to financial assets at FVPL since, at the date of initial application, they do not meet the criteria to be classified as Mandatory FVOCI and are not designated as Designated FVOCI in accordance with HKFRS 9.

Related fair value gains of approximately HK$139,722,000 as at 1st January 2018 were transferred from investment revaluation reserves to retained profits on 1st January 2018.

(iv) The private investment funds not held for trading that were previously classified as available-for-sale financial assets measured at fair value amounted to approximately HK$524,627,000 are classified as financial assets at FVPL at the date of initial application. They do not meet the criteria to be classified as Mandatory FVOCI or be designated as Designated FVOCI in accordance with HKFRS 9, because they are not equity investment.

Related fair value gains of approximately HK$137,126,000 as at 1st January 2018 were transferred from investment revaluation reserves to retained profits on 1st January 2018.

(v) The unlisted equity securities that were previously classified as available-for-sale financial assets measured at cost amounted to approximately HK$78,000,000 are classified as financial assets at FVPL at the date of initial application. They do not meet the criteria to be classified as amortised cost or Mandatory FVOCI, because their cash flows do not represent solely payments of principal and interest, and they are not designated as Designated FVOCI in accordance with HKFRS 9.

(vi) These items continue to be measured at amortised cost because, at the date of initial application, the Group's business model is to hold these loans and receivables to collect the contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding.

Upon application of HKFRS 9, the fair value of the Group's financial assets remains at the carrying amount under HKAS 39 on 1st January 2018. The adoption of the ECL requirements of HKFRS 9 has no significant impact on transition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs *(Continued)*

HKFRS 15: Revenue from Contracts with Customers

HKFRS 15 replaces, among others, HKAS 18 and HKAS 11 which specified the revenue recognition arising from sale of goods and rendering of services and the accounting for construction contracts respectively. The Standard establishes a comprehensive framework for revenue recognition and certain costs from contracts with customers within its scope. It also introduces a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Group has elected to apply the cumulative effect transition method and recognised the cumulative effect of initial adoption (if any) as an adjustment to the opening balance of components of equity at 1st January 2018 (i.e. the date of initial application). Therefore, the comparative information has not been restated for the effect of HKFRS 15.

In addition, the Group has applied HKFRS 15 retrospectively only to contracts that were not completed at 1st January 2018 in accordance with the transition provisions therein.

The adoption of this standard does not have a significant impact on the measurement and recognition of revenue of the Group but additional disclosures have been made throughout these consolidated financial statements.

(b) Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost, except for investment properties and financial assets and liabilities at FVPL, which are measured at fair value as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. 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.

Non-controlling interests are presented separately from owners of the Company, in the consolidated income statement and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

Allocation of total comprehensive income

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to the owners of the Company and the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in ownership interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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 retained interest determined at the date when control is lost; and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost.

The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

(d) Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, an investment in subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress and freehold land, are stated at cost less accumulated depreciation and impairment losses. 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. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Construction in progress and freehold land are stated at cost, which comprises the cost of acquisition, construction and borrowing costs, if applicable, less any identified impairment loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

The cost of construction in progress will not be amortised until they are completed and ready for intended use and are transferred to a specific category of property, plant and equipment or investment properties when the construction is completed.

As the Group's lease payments for its leasehold property located in Hong Kong cannot be allocated reliably between the land and buildings elements at the inception of the lease because similar land and buildings are not sold or leased separately, the entire lease payments are included in the cost of the leasehold property as a finance lease in property, plant and equipment.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Buildings	3% or over the relevant lease term, whichever is shorter
Leasehold property	3% or over the relevant lease term, whichever is shorter
Leasehold improvements	5% – 33% or over the relevant lease term, whichever is shorter
Office equipment, furniture and fixtures	20% – 33%
Plant and machinery	10% – 20%
Motor vehicles	10% – 33%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation surplus or deficit. The revaluation surplus is recognised in profit or loss to the extent that an impairment loss previously recognised in profit or loss with the remaining surplus recognised in other comprehensive income as property revaluation reserves within equity. The revaluation deficit is recognised in other comprehensive income to reduce the property revaluation reserves to the extent that the amount previously recognised in property revaluation reserves with the remaining deficit recognised in profit or loss.

The property revaluation reserves are derecognised upon the disposal of investment property.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Investment properties

Investment properties are land and/or building that are held by owner or lessee under finance lease, to earn rental income and/or for capital appreciation. These include properties held for a currently undetermined future use and properties that are held under operating lease, which satisfy the definition of investment property and carry at fair value.

Investment properties are stated at fair value at the end of the reporting period. Any gain or loss arising from a change in fair value is recognised in profit or loss. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued.

(g) Prepaid lease payments

Prepaid lease payments are up-front payments to acquire fixed-term interests in lessee-occupied land that are classified as operating leases. The premiums are stated at cost less accumulated amortisation and impairment losses and are amortised over the period of the lease on a straight-line basis to profit or loss.

(h) Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over a period which reflects the pattern in which the related economic benefits are recognised.

(i) Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire; or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset; or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for the amounts it may have to pay.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and measurement

Applicable from 1st January 2018

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) Mandatory FVOCI; (iii) Designated FVOCI; or (iv) FVPL.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model (the "reclassification date").

1) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Group's financial assets at amortised cost include cash and bank balances, pledged bank deposits, trade and other receivables, loans receivable and investment in an insurance contract.

2) Financial assets at FVPL

These investments include financial assets that are not measured at amortised cost or FVOCI, including financial assets held for trading and designated upon initial recognition and financial assets that are otherwise required to be measured at FVPL. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which includes any dividend or interest earned on financial assets. Dividend or interest income is presented separately from fair value gain or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and measurement (Continued)

Applicable from 1st January 2018 (Continued)

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and have a recent actual pattern of short-term profit-taking on initial recognition; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

The Group's financial assets mandatorily measured at FVPL include listed and unlisted equity securities, private investment funds, listed and unlisted debt securities and money market funds.

Applicable before 1st January 2018

Financial assets are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly attributable to the acquisition of the financial assets.

The Group classified its financial assets into one of the following categories before 1st January 2018.

1) Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which includes any dividend or interest earned on the financial assets.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at FVPL only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and measurement (Continued)

Applicable before 1st January 2018 (Continued)

2) Loans and receivables

Loans and receivables including trade and other receivables, loans receivable, other receivable from investment in an insurance contract and cash and bank balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income shall be reclassified to profit or loss as a reclassification adjustment.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The Group's financial liabilities include trade and other payables, financial liabilities at FVPL and bank and other loans. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Impairment of financial assets and other items under HKFRS 9

Applicable from 1st January 2018

The Group recognises loss allowances for ECL on financial assets that are measured at amortised cost to which the impairment requirements apply in accordance with HKFRS 9. At each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped on the following basis of shared credit risk characteristics:

(i) past due information

(ii) nature of instrument

(iii) nature of collateral

(iv) industry of debtors

(v) geographical location of debtors

(vi) external credit risk ratings

2. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(i) Financial instruments *(Continued)*

Impairment of financial assets and other items under HKFRS 9 (Continued)

Applicable from 1st January 2018 (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial instrument meets any of the following criteria:

(i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or

(ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(i) it has a low risk of default;

(ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Impairment of financial assets and other items under HKFRS 9 (Continued)

Applicable from 1st January 2018 (Continued)

Simplified approach of ECL

For trade receivables, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower.

(b) a breach of contract, such as a default or past due event.

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof, based on historical experience of recoveries of similar assets. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due. Any recovery made is recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Financial instruments *(Continued)*

Impairment of financial assets and other items under HKFRS 9 (Continued)

Applicable before 1st January 2018

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at FVPL, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset is impaired, a cumulative loss comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss in profit or loss, is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss in respect of available-for-sale equity instrument are not reversed through profit or loss. Any subsequent increase in fair value of available-for-sale equity instrument after recognition of impairment loss is recognised in equity.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows of the entity discounted at the current market rate of return. Such impairment loss shall not be reversed.

(j) Convertible bond

Convertible bond which contains liability component, conversion option and embedded derivatives (i.e. early redemption options by the issuer and the bondholder) with economic characteristics and risks not closely related to the host contract is recognised separately in the statement of financial position, net of issue costs.

Multiple embedded derivatives are generally treated as a single compound derivative. On the issue of the convertible bond, the liability component and the compound derivative are measured at fair value. The liability component is recognised as a current liability and subsequently measured at amortised cost, using effective interest method until extinguished on conversion or redemption. The derivative is recognised as financial liabilities at FVPL with subsequent changes in fair value recognised in profit or loss.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bond reserves within shareholders' equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bond reserves is transferred to share capital or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bond reserves is transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Convertible bond *(Continued)*

Issue costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

When the convertible bonds with an equity component are extinguished before maturity through an early redemption or repurchase by the issuer in which the original conversion privileges are unchanged, the consideration and transaction costs paid for the redemption or repurchase is allocated to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received when the convertible instrument was issued. The difference between the carrying amount of the liability component and the liability component from the allocation of consideration and transaction costs paid for the redemption or repurchase is recognised in profit or loss, whereas the difference between the carrying amount of the equity component and the equity component from the allocation of consideration and transaction costs paid for the redemption or repurchase is recognised in equity.

(k) Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition

Rental income under operating lease is recognised when the properties are let out and on the straight line basis over the lease terms.

Dividend income from investments is recognised when the Group's rights to receive dividend is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Applicable from 1st January 2018

Revenue from contracts with customers within HKFRS 15

Nature of goods or services

The Group engaged in the manufacture, sale and distribution of information home appliances and complementary products.

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition *(Continued)*

Applicable from 1st January 2018 (Continued)

Revenue from contracts with customers within HKFRS 15 *(Continued)*

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(b) the Group'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) 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.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sale of information home appliance and complementary products are recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Contract liabilities

Within the context of HKFRS 15, if a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional, before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).

Before the adoption of HKFRS 15, contract balances relating to sales contracts were presented in the consolidated statement of financial position under "other payables". However, under HKFRS 15, certain of the balances are reclassified into "contract liabilities".

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition *(Continued)*

Applicable from 1st January 2018 (Continued)

Revenue from contracts with customers within HKFRS 15 *(Continued)*

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Applicable before 1st January 2018

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(n) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in the currency of Hong Kong dollars ("HKD"), which is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(b) Income and expenses for each income statement are translated at average exchange rate;

(c) All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity;

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Foreign currency translation *(Continued)*

(d) On the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised;

(e) On the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss; and

(f) On all other partial disposals, which includes partial disposal of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.

(o) Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment and prepaid lease payments may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately.

(p) Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are 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. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases. Rentals payable and receivable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

(r) Employee benefits

Short-term employee benefits

Salaries, annual bonuses, paid annual leave and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to Mandatory Provident Fund Scheme (the "MPF") in Hong Kong are recognised as an expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Contributions to the state-managed retirement benefit schemes in the People's Republic of China (other than Hong Kong, Taiwan and Macau) (the "PRC"), which are calculated on certain percentages of the applicable payroll costs, are charged as expense when employees have rendered services entitling them to the contributions.

(s) Share-based payment transactions

Equity-settled transactions

The Group operates one share-based compensation plan, share option scheme, under which the Group receives services from employees including directors, and parties other than employees in exchange for the grant of rights over shares or shares of the Company ("Shares") as remuneration in form of equity-settled transactions. The cost of such transaction with employees is measured by reference to the fair value of the equity instruments at the grant date whereas the transactions with parties other than employees are measured at fair value of the goods or services received at the date the Group obtains the goods or the counterparty renders the services, except where the fair value cannot be reliably estimated, in which case they are measured at the fair value of the equity instruments granted.

The cost of equity-settled transactions are recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share option reserves under equity for grant of share options.

During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior periods is charged/credited to profit or loss for the year of review, with a corresponding adjustment to the reserve within equity.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Share-based payment transactions *(Continued)*

Equity-settled transactions (Continued)

Where the terms of an equity-settled award are modified, an additional expense is recognised for any increase in the value of the transaction as a result of the modification, 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. However, if a new award is substituted for the cancelled award, and 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 above.

Share option scheme

For share options granted to employees, the total amount to be expensed is determined by reference to the fair value of the share options at the grant date by using the Binomial Model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the Shares.

When the share options are exercised, the amount previously recognised in share option reserves will be transferred to share capital (nominal value) and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserves will be transferred to retained profits.

(t) Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 in the consolidated financial statements. However, any deferred tax arising from initial recognition of other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if 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 the parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities 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 to the Group. If the Group is itself such a plan, the sponsoring employers are also related to 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); or

(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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

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.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Board for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

3. FUTURE CHANGES IN HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Annual Improvements to HKFRSs	*2015–2017 Cycle* [1]
HKFRS 16	*Leases* [1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments* [1]
Amendments to HKAS 19	*Employee benefits* [1]
Amendments to HKAS 28	*Investments in Associates and Joint Ventures* [1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation* [1]
Amendments to HKASs 1 and 8	*Definition of Material* [2]
Amendments to HKFRS 3	*Definition of a Business* [3]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4]

[1] *Effective for annual periods beginning on or after 1st January 2019*

[2] *Effective for annual periods beginning on or after 1st January 2020*

[3] *Effective for acquisition that occur on or after the beginning of the first annual period beginning on or after 1st January 2020*

[4] *The effective date is to be determined*

3. FUTURE CHANGES IN HKFRSs *(Continued)*

The directors are in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs. So far, the Group has identified that some aspects of HKFRS 16 may have a significant impact on the consolidated financial statements. While the assessment has been substantially completed, the actual impacts upon the initial adoption of the standards 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 standards are initially applied in the Group's quarterly financial information for the three months ending 31st March 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 16: Leases

HKFRS 16 significantly changes the lessee accounting by replacing the dual model under HKAS 17 with a single model which requires a lessee to recognise assets and liabilities for the rights and obligations created by leases unless the exemptions apply. Besides, among other changes, it requires enhanced disclosures to be provided by lessees and lessors. Based on the preliminary assessment, the management is of the opinion that the leases of certain properties by the Group which are currently classified as operating leases under HKAS 17 will trigger the recognition of right-of-use assets and lease liabilities in accordance with HKFRS 16. In subsequent measurement, depreciation (and, if applicable, impairment loss) and interest will be recognised on the right-of-use assets and the lease liabilities respectively, of which the amount in total for each reporting period is not expected to be significantly different from the periodic operating lease expenses recognised under HKAS 17. Apart from the effects as outlined above, it is not expected that HKFRS 16 will have a material impact on the future financial position, financial performance and cash flows of the Group upon adoption.

As set out in note 34, as at 31st December 2018, the total future minimum lease payments under non-cancellable operating leases of the Group amounted to approximately HK$4,139,000. The management of the Company does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's financial performance but it is expected that the Group has to separately recognise the interest expenses on the lease liabilities and the depreciation expense on the right-of-use assets, and that certain portion of the future minimum lease payments under the Group's operating leases will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities. The Group will also be required to re-measure the lease liabilities upon the occurrence of certain events such as a change in the lease term and recognise the amount of the re-measurement of the lease liabilities as an adjustment to the right-of-use assets. In addition, payments for the principal portion of the lease liabilities will be presented within financing activities in the consolidated statement of cash flows.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Fair value of investment properties

In assessing the fair value of investment properties, the Group obtains the valuation of the investment properties provided by the independent professional qualified valuers. As described in note 7, the valuation techniques applied by the independent professional qualified valuers for the investment properties have been discussed with the Directors. The Directors review the valuations performed by the independent professional qualified valuers and use their estimation to determine whether valuation techniques applied are appropriate to the circumstances of the Group. Changes in assumption could affect the reported fair value of investment properties in the consolidated financial statements.

Fair value of private investment funds

In assessing the fair value of private investment funds, the Group obtains the valuation of the private investment funds provided by the investment managers. As described in note 7, the valuation techniques applied by the investment managers for the private investment funds have been discussed with the Directors. The Directors review the valuations performed by the investment managers and use their estimation to determine whether valuation techniques applied are appropriate to the circumstances of the Group. The estimation of fair value of private investment funds classified as level 3 fair value measurement included some assumptions not supported by observable market data. Changes in assumption could affect the reported fair value of private investment funds in the consolidated financial statements.

Useful lives and impairment of property, plant and equipment and prepaid lease payments

The Directors review the useful lives and depreciation/amortisation method of property, plant and equipment and prepaid lease payments at the end of each reporting period, through careful consideration with regards to expected usage, wear-and-tear and potential technical obsolescence to usage of the assets.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Directors have to assess whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence. If any such indication exists, the recoverable amounts of the asset would be determined by reference to value in use and fair value less costs of disposal. Value in use is determined using the discounted cash flow method.

Deferred tax liabilities

At the end of the reporting period, deferred tax liabilities of approximately HK$28,350,000 *(2017: approximately HK$11,251,000)* were provided for, in relation to the PRC land appreciation tax and enterprise income tax arising from revaluation of property, plant and equipment transferred to investment properties and revaluation of investment properties. No deferred tax liabilities in relation to the withholding tax on the distribution of retained profits of the PRC subsidiaries have been provided for as those profits are not to be remitted out of the PRC in foreseeable future. Further details are set out in note 14.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Deferred tax assets

At the end of the reporting period, deferred tax assets of approximately HK$18,782,000 *(2017: HK$Nil)* in relation to unused tax losses were recognised in the consolidated statement of financial position. The recognition of the deferred tax assets mainly depends on whether sufficient profits will be available in the future. In cases where the actual future taxable profits generated are less than the original estimate, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss in the period in which such a reversal takes place. Significant management judgement is required to estimate the amount and timing of future taxable profits so as to determine the amounts of deferred tax assets to be recognised.

As at 31st December 2018, no deferred tax asset has been recognised on the tax losses from the PRC subsidiaries of approximately HK$145,979,000 *(2017: approximately HK$166,733,000)* due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases change in facts and circumstances which result in revision of future taxable profits estimation, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

Allowance for inventories

The Group's management reviews the condition of inventories at the end of each reporting period, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

Loss allowance for ECL

The Group's management estimates the loss allowance for trade and other receivables and loans receivable by using various inputs and assumptions including risk of default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and loans receivable. Details of the key assumption and inputs used in estimating ECL are set out in note 6(a).

Fair value of the debt component and embedded derivatives of convertible bonds

The fair values of the debt component and embedded derivatives of convertible bonds in the principal amount of HK$504,000,000 (the "Convertible Bonds") that are not traded in an active market are estimated by the Group based on the valuation performed by an independent valuer. The fair values of the debt component and the embedded derivatives of Convertible Bonds are determined on the issue date of Convertible Bonds and at the end of the reporting period (for the embedded derivatives) using Binomial Option Pricing Model with reference to unobservable market data. Imputed interest expenses on Convertible Bonds and fair value change on financial liabilities at fair value through profit or loss of approximately HK$62,830,000 *(2017: approximately HK$64,288,000)* and HK$4,567,000 *(2017: approximately HK$5,336,000)* respectively were recognised in the consolidated income statement for the year ended 31st December 2018. During the year, the Convertible Bonds were redeemed at the redemption price equal to the outstanding principal amount of HK$504,000,000 on the Bond Maturity Date. Further details are set out in note 28.

Notes to the Consolidated Financial Statements

5. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders of the Company ("Shareholders"), issue new shares, return capital to Shareholders, raise new debt financing or sell assets to reduce debt.

Meanwhile, the Group monitors its capital structure using a gearing ratio which is calculated as total debts divided by the total equity. For this purpose, the Group defines debt as total debt (which includes bank and other loans, trade and other payables, dividend payables, convertible bonds, financial liabilities at fair value through profit or loss, income tax payable and deferred tax liabilities).

The gearing ratio as at 31st December 2018 and 2017 was as follows:

	Note	**2018** **HK$'000**	2017 HK$'000
Current liabilities:			
Trade and other payables	26	**199,214**	215,424
Dividend payables		**31**	31
Bank and other loans	27	**245,251**	632,867
Convertible bonds	28	**–**	456,249
Financial liabilities at fair value through profit or loss	20	**3,218**	50,057
Income tax payable		**8**	307
		447,722	1,354,935
Non-current liabilities:			
Deferred tax liabilities	14	**28,350**	11,251
Total debt		**476,072**	1,366,186
Total equity		**1,987,932**	2,415,579
Gearing ratio		**23.9%**	56.6%

The lower gearing ratio of the Group as at 31st December 2018 was primarily resulted from repayment of interest-bearing borrowings and redemption of convertible bonds at maturity during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to price risk arising from its equity investments in other entities and movements in its own equity share price.

These risks are mitigated by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, cash and cash equivalents and loans receivable. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The carrying amount of financial assets recognised on the consolidated statement of financial position, which is net of impairment losses, represents the Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements.

The Group has limited credit risk with its money deposited in financial institutions and securities brokers, which are leading and reputable and are assessed as having low credit risk. The Group has not suffered any significant losses arising from the non-performance by these parties in the past and management does not expect this position to change in the future.

Trade receivables

In respect of trade receivables, the Group normally grants its customers an average credit period from 30 days to 18 months *(2017: 30 days to 18 months)*. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Credit quality of a customer is assessed based on an extensive credit rating and individual credit limit assessment which is mainly based on the Group's own trading records.

At the end of the reporting period, the Group had a concentration of credit risk as 33.9% *(2017: 79.4%)* and 96.1% *(2017: 95.8%)* of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group's customer base consists of a wide range of clients and the trade receivables are categorized by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The Group applies a simplified approach in calculating ECL for trade receivables and recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected loss rate used in the provision matrix is calculated for each category based on actual credit loss experience over the past three years and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's estimate on future economic conditions over the expected lives of the receivables. There was no change in the estimation techniques or significant assumptions made during the year.

Notes to the Consolidated Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables (Continued)

The information about the exposure to credit risk and ECL for trade receivables using a provision matrix as at 31st December 2018 is summarised below:

As at 31st December 2018

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Credit-impaired
Not past due	**–**	**168,345**	**–**	**No**
Less than 3 months past due	**–**	**452**	**–**	**No**
3 months to 6 months past due	**–**	**726**	**–**	**No**
6 months to 9 months past due	**–**	**34**	**–**	**No**
Over 9 months past due	**99%**	**906**	**897**	**No**
		170,463	**897**	

The ageing analysis of trade receivables (net of loss allowance) as at 31st December 2017 that were neither individually nor collectively considered to be impaired was as follows:

	HK$'000
Neither past due nor impaired	116,610
Less than 3 months past due	9,309
3 months to 6 months past due	475
6 months to 9 months past due	–
Past due over 9 months	1,663
Past due but not impaired	11,447
	128,057

Included in the Group's trade receivables balance as at 31st December 2017 were debtors with a carrying amount of approximately HK$11,447,000, which were past due as at 31st December 2017 but which the Group had not impaired as there had not been any significant changes in credit quality and the directors believed that the amounts would be fully recoverable.

Receivables that were neither past due nor impaired as at 31st December 2017 related to a wide range of customers for whom there was no history of default.

The Group does not hold any collateral over trade receivables as at 31st December 2018 *(2017: Nil)*.

6. FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables (Continued)

As at 31st December 2018, the Group recognised loss allowance of approximately HK$897,000 *(2017: approximately HK$2,442,000)* on the trade receivables. The movement in the loss allowance for trade receivables during the year is summarised below. The comparative amounts represent the loss allowance for impairment losses recognised under HKAS 39.

	2018 **HK$'000**	2017 HK$'000
At beginning of the reporting period	**2,442**	2,374
Reversal of impairment loss	**–**	(2)
Impairment loss	**15**	–
Write-off	**(1,514)**	(17)
Exchange realignment	**(46)**	87
At end of the reporting period	**897**	2,442

Trade receivables of approximately HK$1,514,000 *(2017: approximately HK$17,000)* written off during the year are still subject to enforcement activity.

Loans receivable and other receivables

At the end of the reporting period, the Group also had a concentration of credit risk in respect of other receivables and loans receivable as 50.9% *(2017: 63.1%)* of total other receivables was due from two *(2017: two)* independent third parties and all loans receivable were due from an independent third party.

The Group considers that the loans receivable and other receivables, except for other receivable from former chief executive officer, Mr. Kevin Choo, in respect of redemption of investment in an insurance contract as detailed in note 25, have low credit risk based on the borrowers' strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. Impairment on other receivables is measured on 12-month ECL and reflects the short maturities of the exposures.

In estimating the ECL and in determining whether there is a significant increase in credit risk since initial recognition and whether the financial asset is credit-impaired, the Group has taken into account the historical actual credit loss experience on the debtors and the financial position of the counterparties by reference to, among others, their management or audited accounts, legal advice on claims from counterparties and adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. The management of the Group considers the ECL of these financial assets to be insignificant after taking into account the financial position and credit quality of the counterparties, except for other receivable from Mr. Choo, in respect of investment in an insurance contract of approximately HK$8,467,000 for which loss allowance has been provided for the whole amount.

6. FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Loans receivable and other receivables (Continued)

There was no change in the estimation techniques or significant assumptions made during the year.

As at 31st December 2018, the Group recognised loss allowance of approximately HK$8,467,000 *(2017: approximately HK$17,945,000)* on the balances. The movement in the loss allowance for the balances during the year is summarised below. The comparative amounts represent the loss allowance for impairment losses recognised under HKAS 39.

	2018 **HK$'000**	2017 HK$'000
At beginning of the reporting period	**17,945**	16,779
Reversal of impairment loss	**–**	(10)
Impairment loss	**8,725**	–
Write-off	**(17,378)**	–
Exchange realignment	**(825)**	1,176
At end of the reporting period	**8,467**	17,945

(b) Liquidity risk

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

The Group has unutilised bank borrowing facilities of approximately HK$284,557,000 *(2017: approximately HK$952,001,000)* at the end of the reporting period to meet liquidity needs.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group are required to pay.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

Specifically, bank loans with a repayment on demand clause are included in the earliest period that the Group is required to repay regardless of the probability of the banks choosing to exercise their rights as at the end of the reporting period. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

		2018						2017 *(Restated)*					
	Note	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000
Non-derivative financial liabilities													
Trade and other payables	26	**177,163**	**177,163**	**170,439**	**844**	**496**	**5,384**	195,253	195,253	188,637	274	699	5,643
Dividend payables		**31**	**31**	**31**	**–**	**–**	**–**	31	31	31	–	–	–
Bank and other loans	27	**245,251**	**245,251**	**245,251**	**–**	**–**	**–**	632,867	632,867	632,867	–	–	–
Convertible bonds	28	**–**	**–**	**–**	**–**	**–**	**–**	456,249	519,079	519,079	–	–	–
		422,445	**422,445**	**415,721**	**844**	**496**	**5,384**	1,284,400	1,347,230	1,340,614	274	699	5,643

The amounts repayable under loan agreements that include a clause that gives lenders the unconditional right to call loans at any time are classified under the "within one year or on demand" bracket. In this regard, term loans from banks of approximately HK$38,651,000 *(2017: approximately HK$353,054,000)* (note 27) at the end of the reporting period have been so classified even though the Directors do not expect that lenders would exercise their rights to demand repayment and thus these borrowings (including the aggregate principal and interest cash outflows) would be repaid according to the following schedule as set out in the loan agreements:

	2018 HK$'000	2017 HK$'000
Term loans from banks, including interest, with a repayment on demand clause		
Within one year	**37,457**	350,180
More than one year but less than two years	**507**	1,472
More than two years but less than five years	**1,522**	1,515
Over five years	**1,391**	1,882
	40,877	355,049

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's secured interest-bearing borrowings, bank balances and pledged bank deposits. Bank balances and interest-bearing borrowings with floating interest rates and fixed interest rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group has not entered into significant hedging activities to hedge against the exposure to interest rate risk. The Group closely monitors its interest rate exposure and the level of interest-bearing borrowings, in consideration of economic atmosphere and the strategies of the Group.

At the end of the reporting period, if interest rates had been 100 basis points higher or lower (but on condition that interest rate would not fall below zero) and all other variables were held constant, the Group's net loss would be decreased by approximately HK$2,222,000 or HK$640,000 respectively *(2017: net profit would be increased by approximately HK$7,415,000 or HK$418,000 respectively)*.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until at the end of next annual reporting period. The analysis is performed on the same basis for 2017.

(d) Currency risk

The Group has transactional currency exposure. Such exposure arises from trading and investing transactions denominated in a currency other than the functional currency of an operating unit to which they relate. The Group's exposure to foreign currency risk principally arises from changes in exchange rate of United States dollars ("USD"), Great British Pounds ("GBP") and Renminbi ("RMB") against HKD. The management considers that the Group has limited exposure to foreign currency risk of USD against HKD since the relevant exchange rate has remained relatively stable.

The Group is exposed to foreign exchange risk since the Group's certain financial assets at fair value through profit or loss and bank balances were denominated in GBP and RMB. The Group has not entered into significant hedging activities to hedge against the exposure to foreign exchange risk because the main operations of the subsidiaries of the Group are conducted in their functional currency. The Group monitors currency risk exposure of GBP and RMB and will consider hedging significant exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rate at the end of the reporting period.

	Exposure to foreign currencies			
	2018		2017	
	GBP	**RMB**	GBP	RMB
	HK$'000	**HK$'000**	HK$'000	HK$'000
Trade and other receivables	**–**	**–**	–	4,289
Financial assets at fair value through profit or loss	**6,376**	**77,468**	14,458	–
Cash and bank balances	**–**	**721**	–	361,472
Trade and other payables	**–**	**–**	–	(181)
Net exposure	**6,376**	**78,189**	14,458	365,580

At the end of the reporting period, if GBP and RMB had been 11% *(2017: 9%)* and 8% *(2017: 7%)* respectively strengthened/weakened against HKD while all other variables were held constant, the Group's net loss would be decreased/increased by approximately HK$701,000 *(2017: net profit would be increased/decreased by approximately HK$1,293,000)* and HK$6,255,000 *(2017: net profit would be increased/decreased by approximately HK$27,363,000)* respectively.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group's exposure to currency risk for all financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes in foreign currency represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next annual reporting period.

(e) Price risk

The Group is exposed to price risk arising from investments in equity securities classified as financial assets at fair value through profit or loss (note 20). For the Group's equity securities investments and money market funds that are publicly traded, the fair value is determined with reference to quoted market prices. The Group's private investment fund is held for long-term strategic purpose. Its performance is assessed at least annually based on the information available to the Group, together with an assessment of their relevance to the Group's long-term strategic plans.

6. FINANCIAL INSTRUMENTS *(Continued)*

(e) Price risk *(Continued)*

Financial assets at fair value through profit or loss

At the end of the reporting period, if the quoted market price of equity securities had been 10% *(2017: 10%)* higher/lower while all other variables were held constant, the Group's net loss would be decreased/increased by approximately HK$59,774,000 *(2017: net profit would be increased/decreased by approximately HK$25,711,000)* due to change in the fair value of equity securities which were stated at fair value through profit or loss.

At the end of the reporting period, if the quoted market price of equity securities invested by private investment funds had been 1% *(2017: 1%)* higher/lower while all other variables were held constant, the Group's net loss would be decreased/increased by approximately HK$583,000 *(2017: other comprehensive income would be increased/decreased by approximately HK$2,029,000)*.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to the exposure to price risk in existence at that date. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant stock market index or other relevant risk variables and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables. The analysis is performed on the same basis for 2017.

7. FAIR VALUE MEASUREMENTS

In the opinion of the Directors, the carrying amounts of financial assets and liabilities approximate their fair values.

The following presents the assets/liabilities measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 31st December 2018 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3 (lowest level): unobservable inputs for the assets or liabilities.

7. FAIR VALUE MEASUREMENTS *(Continued)*

Assets/(Liabilities) measured at fair value on a recurring basis

	Note	2018 Carrying amount HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Investment properties	16	**434,003**	**–**	**89,058**	**344,945**
Financial assets at fair value through profit or loss	20	**1,022,769**	**606,872**	**143,716**	**272,181**
Financial liabilities at fair value through profit or loss	20	**(3,218)**	**(3,218)**	**–**	**–**

	Note	2017 Carrying amount HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Investment properties	16	585,131	–	130,650	454,481
Available-for-sale financial assets	19	801,217	276,590	275,486	249,141
Financial assets at fair value through profit or loss	20	743,463	566,267	177,196	–
Financial liabilities at fair value through profit or loss	20	(50,057)	–	–	(50,057)

During the year ended 31st December 2018, a freehold land and building previously classified as investment properties was transferred out of Level 3 fair value measurements, upon the transfer of such land and building to property, plant and equipment.

During the year ended 31st December 2017, a private investment fund classified as available-for-sale financial asset was transferred out from Level 3 to Level 2 fair value measurements, as a result of the listing of the underlying investment on the Stock Exchange on 28th September 2017.

Valuation techniques and inputs in Level 2 fair value measurement

(a) *Investment properties*

The investment properties situated in the PRC of approximately HK$89,058,000 were revalued by Roma Appraisals Limited ("Roma"), an independent professional qualified valuer, on the market value basis using direct comparison approach.

(b) *Financial assets at fair value through profit or loss: Private investment fund*

The fair value of the private investment fund mainly invested in cryptocurrencies is valued based on the net asset value of each fund unit quoted by the investment managers based on quoted prices of the underlying investments i.e. cryptocurrencies on trading platforms using direct comparison approach.

(c) *Financial assets at fair value through profit or loss: Unlisted debt securities*

The fair value of unlisted debt securities is valued based on the return rate of the note quoted by the financial institution with reference to quoted US Treasury Bills and Notes rates using discounted cash flow model.

7. FAIR VALUE MEASUREMENTS *(Continued)*

Movements in Level 3 fair value measurements

The details of the movements of the recurring fair value measurements categorised as Level 3 are shown as follows:

	Investment properties HK$'000	Available-for-sale financial assets HK$'000	Financial assets at fair value through profit or loss HK$'000	Financial liabilities at fair value through profit or loss HK$'000
As at 1st January 2017	–	71,446	–	–
Purchases	451,034	199,500	–	(55,393)
Exchange realignment	6,218	–	–	–
Net change in fair value recognised in				
– profit or loss	(2,771)	–	–	5,336
– other comprehensive income	–	52,923	–	–
Transferred to Level 2	–	(74,728)	–	–
As at 31st December 2017 and as at 1st January 2018	454,481	249,141	–	(50,057)
Exchange realignment	(18,145)	–	–	–
Reclassification from available-for-sale financial assets at fair value to FVPL on adoption of HKFRS 9	–	(249,141)	249,141	–
Reclassification from available-for-sale financial assets at cost to FVPL on adoption of HKFRS 9	–	–	78,000	–
Net change in fair value recognised in profit or loss	21,709	–	(54,960)	4,567
Transfer to property, plant and equipment	(113,100)	–	–	–
Derecognition upon redemption of convertible bonds	–	–	–	45,490
As at 31st December 2018	**344,945**	**–**	**272,181**	**–**

7. FAIR VALUE MEASUREMENTS *(Continued)*

Valuation techniques and inputs in Level 3 fair value measurement

(a) Investment properties

The investment property situated in the United States of approximately HK$113,100,000 was revalued by Roma, an independent professional qualified valuer, on the market value basis using direct comparison approach with unobservable inputs before transferring to property, plant and equipment.

As at 31st December 2018, if the market condition of price per square foot had been 1% *(2017: 1%)* higher/lower while all other variables were held constant, the Group's net loss would be decreased by approximately HK$1,317,000 or increased by approximately HK$1,269,000 respectively *(2017: net profit would be increased by approximately HK$1,248,000 or decreased by approximately HK$1,872,000 respectively)*.

The investment property situated in the PRC of approximately HK$344,945,000 was revalued by Vigers Appraisal & Consulting Limited ("Vigers"), an independent professional qualified valuer, on the market value basis of capitalisation of net rental income derived from the existing tenancy with allowance for the reversionary income potential. The significant unobservable input used is the capitalisation rate ranging from 5.75% to 6.25% *(2017: 6.0% to 6.5%)*.

As at 31st December 2018, if the capitalisation rate had been 1% *(2017: 1%)* higher/lower while all other variables were held constant, the Group's net loss would be increased by approximately HK$43,823,000 or decreased by approximately HK$53,654,000 respectively *(2017: net profit would be decreased by approximately HK$40,859,000 or increased by approximately HK$49,861,000 respectively)*.

(b) Financial assets at fair value through profit of loss: Private investment funds

The fair value of the private investment fund in level 3 is based on the net asset value of the fund unit quoted by the investment manager based on the fair value of the underlying investment i.e. unlisted convertible bonds which are valued by an independent professional qualified valuer with appropriate qualification and experience in the valuation of similar financial instrument. The fair value of the unlisted convertible bonds are determined at the end of the reporting period using Binomial Option Pricing Model. The significant unobservable input used in the fair value measurement is the expected volatility of 39% *(2017: 35% to 40%)*.

As at 31st December 2018, if the expected volatility had been 5% *(2017: 5%)* higher/lower while all other variables were held constant, the Group's net loss would be decreased by approximately HK$7,000 or increased by approximately HK$21,000 respectively *(2017: HK$Nil)*.

(c) Financial assets at fair value through profit or loss: Unlisted equity securities

The fair value of the unlisted equity securities without an active market classified in Level 3 was valued by Vigers using direct comparison approach with unobservable inputs. The significant unobservable input used in the fair value measurement is the price-to-earnings ratio.

As at 31st December 2018, if the expected price-to-earnings ratio had been 10% higher/lower while all other variables were held constant, the Group's net loss would be decreased/increased by approximately HK$2,976,000 respectively *(2017: HK$Nil)*.

7. FAIR VALUE MEASUREMENTS *(Continued)*

Valuation techniques and inputs in Level 3 fair value measurement *(Continued)*

(d) Financial liabilities at fair value through profit or loss: Derivative component in convertible bonds

The fair value of the derivative component in convertible bonds classified in Level 3 was valued by Vigers using the Binomial Option Pricing Model at the end of each reporting period. During the year, the significant unobservable input used in the fair value measurement is the expected volatility of 45% *(2017: 51% to 73%)*.

The Group redeemed all the convertible bonds and derecognised the early redemption options on the bond maturity date (i.e. 20th June 2018).

8. SEGMENT INFORMATION

For management purposes, the current major operating segments of the Group are information home appliances, investing, leasing and internet data centre ("IDC").

The information home appliances segment is principally engaged in manufacture, sales and distribution of information home appliances and complementary products to consumer markets.

The investing segment comprises trading of securities and investing in financial instruments.

The leasing segment comprises leasing out of properties.

The IDC segment comprises construction, operation and leasing out of properties used as IDC.

Other operations segment of the Group mainly comprises trading of miscellaneous materials.

For the purpose of assessing the performance of the operating segments and allocating resources between segments, the executive Directors assess segment profit or loss before tax without allocation of interest income from bank deposits, finance costs, Directors' and chief executive's emoluments, head office staff salaries, legal and professional fees and other corporate administrative costs and the basis of preparing such information is consistent with that of the consolidated financial statements.

All assets are allocated to reportable segments other than head office bank balances and other unallocated financial and corporate assets which are managed on a group basis. All liabilities are allocated to reportable segments other than unallocated head office and corporate liabilities which are managed on a group basis.

Inter-segment sales transactions are charged at prevailing market rates. The accounting policies of the reporting segments are the same as the Group's accounting policies as described in note 2.

8. SEGMENT INFORMATION *(Continued)*

Business segments

Revenue represents net invoiced value of goods sold to customers less returns and allowance. An analysis of the Group's revenue, other revenue and net (loss)/income, net changes in fair value of investment properties, segment results and segment assets and liabilities by business segments is as follows:

For the year ended 31st December 2018

	Information home appliances HK$'000	Investing HK$'000	Leasing HK$'000	IDC HK$'000	Other operations HK$'000	Elimination HK$'000	Consolidated HK$'000
REVENUE							
External sales	400,843	–	–	–	–	–	400,843
OTHER REVENUE AND NET (LOSS)/INCOME	1,214	(303,150)	8,556	28,427	530	(1,031)	(265,454)
NET CHANGES IN FAIR VALUE OF INVESTMENT PROPERTIES	–	–	17,615	21,710	–	–	39,325
Segment revenue	402,057	(303,150)	26,171	50,137	530	(1,031)	174,714
RESULTS							
Segment results	(53,838)	(311,576)	21,303	42,489	(431)	–	(302,053)
Unallocated corporate income							19,290
Interest income from bank deposits							7,088
Other unallocated corporate expenses							(57,463)
							(333,138)
Finance costs							(70,957)
Loss before tax							(404,095)
Income tax credit							6,199
Loss for the year							(397,896)

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

As at 31st December 2018

	Information home appliances HK$'000	Investing HK$'000	Leasing HK$'000	IDC HK$'000	Other operations HK$'000	Unallocated HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	266,312	1,324,620	100,632	501,824	459	–	2,193,847
Unallocated corporate assets						270,157	270,157
Consolidated total assets							2,464,004
LIABILITIES							
Segment liabilities	210,496	207,598	22,550	27,090	1,105	–	468,839
Unallocated corporate liabilities						7,233	7,233
Consolidated total liabilities							476,072
OTHER INFORMATION							
Capital expenditures	428	–	–	15,530	–	34	15,992
Depreciation and amortisation	3,509	–	253	282	14	1,856	5,914
Write-down of inventories	3,256	–	–	–	–	–	3,256
Foreign exchange gains, net	(487)	(7,200)	–	–	–	(3,594)	(11,281)
Operating lease charges on premises	3,388	808	–	–	95	7,440	11,731
Bad debts	56	–	–	–	–	–	56
Impairment loss on trade receivables	–	–	–	–	15	–	15
Write-off of impairment loss on trade receivables	(1,134)	–	–	–	(380)	–	(1,514)
Impairment loss on other receivables	33	–	–	–	66	8,626	8,725
Write-off of impairment loss on other receivables	(33)	(17,119)	–	–	(66)	(160)	(17,378)

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31st December 2017

	Information home appliances HK$'000	Investing HK$'000	Leasing HK$'000	IDC HK$'000	Other operations HK$'000	Elimination HK$'000	Consolidated HK$'000
REVENUE							
External sales	602,581	–	–	–	291	–	602,872
OTHER REVENUE AND NET INCOME	(2,128)	248,816	8,571	9,238	217	(2,154)	262,560
NET CHANGES IN FAIR VALUE OF INVESTMENT PROPERTIES	–	–	4,694	(2,771)	–	–	1,923
Segment revenue	600,453	248,816	13,265	6,467	508	(2,154)	867,355
RESULTS							
Segment results	(40,678)	236,436	7,150	(7,478)	(1,012)	–	194,418
Unallocated corporate income							10,345
Interest income from bank deposits							5,910
Gain on disposal of a subsidiary							9,868
Other unallocated corporate expenses							(50,460)
							170,081
Finance costs							(76,341)
Profit before tax							93,740
Income tax credit							452
Profit for the year							94,192

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

As at 31st December 2017

	Information home appliances HK$'000	Investing HK$'000	Leasing HK$'000	IDC HK$'000	Other operations HK$'000	Unallocated HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	338,800	2,617,331	142,677	469,478	596	–	3,568,882
Unallocated corporate assets						212,883	212,883
Consolidated total assets							3,781,765
LIABILITIES							
Segment liabilities	205,971	607,893	18,290	18,258	1,585	–	851,997
Unallocated corporate liabilities						514,189	514,189
Consolidated total liabilities							1,366,186
OTHER INFORMATION							
Capital expenditures	1,027	–	–	1,079	–	58	2,164
Depreciation and amortisation	4,693	–	199	352	26	1,582	6,852
Write-down/(Write-back) of inventories	1,923	–	–	–	(159)	–	1,764
Foreign exchange losses/(gains), net	6,408	(26,314)	–	(4)	–	(1,346)	(21,256)
Operating lease charges on premises	3,100	696	–	–	203	7,507	11,506
Bad debts	–	–	–	–	9	–	9
Write-off of impairment loss on trade receivables	–	–	–	–	(17)	–	(17)
Reversal of impairment loss on trade and other receivables	–	–	–	–	(12)	–	(12)

Geographical information

The Group operates in the following principal geographical areas: the PRC, Hong Kong, Australia, the United States and other overseas markets in both 2018 and 2017.

The following tables set out information about the geographical location of (a) the Group's revenue from external customers and non-current assets other than available-for-sale financial assets, financial assets at fair value through profit or loss and deferred tax assets; and (b) other revenue and net (loss)/income other than unallocated corporate income, gain on disposal of a subsidiary and interest income from bank deposits. The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the non-current assets is based on the physical location of the assets. The geographical location of other revenue and net (loss)/income is based on the location at which other revenue and net (loss)/income is generated.

Notes to the Consolidated Financial Statements

8. SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

(a) Revenue from external customers and non-current assets

	Revenue from external customers		Non-current assets	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
The PRC	**109,252**	35,565	**458,346**	458,704
Hong Kong	**71,227**	166,599	**74,258**	65,804
Australia	**174,733**	365,467	**–**	–
The United States	**–**	–	**129,658**	106,314
Other overseas markets	**45,631**	35,241	**–**	–
	400,843	602,872	**662,262**	630,822

(b) Other revenue and net (loss)/income

	For the year ended 31st December 2018					
	Information home appliances HK$'000	**Investing HK$'000**	**Leasing HK$'000**	**IDC HK$'000**	**Other operations HK$'000**	**Consolidated HK$'000**
The PRC	**1,214**	**(27,968)**	**6,393**	**28,427**	**530**	**8,596**
Hong Kong	**–**	**(275,182)**	**1,132**	**–**	**–**	**(274,050)**
	1,214	**(303,150)**	**7,525**	**28,427**	**530**	**(265,454)**

	For the year ended 31st December 2017					
	Information home appliances HK$'000	Investing HK$'000	Leasing HK$'000	IDC HK$'000	Other operations HK$'000	Consolidated HK$'000
The PRC	(3,021)	29,982	4,522	9,238	217	40,938
Hong Kong	893	218,834	1,895	–	–	221,622
	(2,128)	248,816	6,417	9,238	217	262,560

8. SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenues from external customers individually contributing over 10% of the total revenue from the Group's information home appliances segment are as follows:

	2018 HK$'000	2017 HK$'000
Customer A	**174,733**	365,467
Customer B	**62,353**	154,581
Customer C	**54,333**	–
Customer D	**45,811**	–*
	337,230	520,048

* This customer did not individually contribute over 10% of the total revenue from the Group's information home appliances segment in 2017.

9. REVENUE, OTHER REVENUE AND NET (LOSS)/INCOME

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers within HKFRS 15		
Sale of goods	**400,843**	602,872
Other revenue		
Dividend income from listed securities	**12,470**	9,863
Rental income from investment properties	**35,837**	15,586
Interest income calculated using the effective interest method:		
Interest income from bank deposits	**7,088**	5,910
Interest income from loans receivable	**11,683**	8,827
Imputed interest income from investment in an insurance contract	**–**	171
	67,078	40,357
Other net (loss)/income		
Consultancy fee income	**782**	–
Compensation income	**3,089**	–
Foreign exchange gain, net	**11,281**	21,256
Fair value losses on financial assets at fair value through profit or loss	**(372,025)**	–
Fair value gains on financial liabilities at fair value through profit or loss	**1,227**	5,336
Net unrealised gains on financial assets at fair value through profit or loss		
– held for trading	**–**	12,082
– designated upon initial recognition	**–**	304
Net gains on disposal of financial assets at fair value through profit or loss		
– held for trading	**–**	29,333
– designated upon initial recognition	**–**	1,993
Gain on derecognition of financial liabilities at fair value through profit or loss	**45,490**	–
Gain on disposal of available-for-sale financial assets	**–**	164,087
Gain on disposal of a subsidiary	**–**	9,868
Reversal of impairment loss on trade and other receivables	**–**	12
Software development income	**–**	1,349
Sundry income	**4,002**	2,706
	(306,154)	248,326
	(239,076)	288,683

9. REVENUE, OTHER REVENUE AND NET (LOSS)/INCOME *(Continued)*

The revenue from contracts with customers within HKFRS 15 is based on fixed price and recognised at a point in time.

The amount of revenue recognised for the year ended 31st December 2018 that was included in the contract liabilities at the beginning of the year is approximately HK$14,355,000.

10. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/Profit from operations has been arrived at after charging/(crediting):

	2018 **HK$'000**	2017 HK$'000
Auditor's remuneration	**1,550**	1,500
Bad debts	**56**	9
Impairment loss on investment in an insurance contract due to early redemption	**–**	2,882
Impairment loss on trade receivables	**15**	–
Impairment loss on other receivables	**8,725**	–
Amortisation of prepaid lease payments	**366**	357
Depreciation of property, plant and equipment	**5,548**	6,495
Cost of inventories	**349,671**	537,397
Loss on disposal of property, plant and equipment	**1,115**	122
Reversal of impairment loss on trade and other receivables	**–**	(12)
Write-down of inventories, net	**3,256**	1,764
Direct outgoings from leasing of investment properties	**5**	5
Operating lease charges on premises	**11,731**	11,506
Research and development costs	**120**	86
Staff costs (including Directors' and chief executive's emoluments *(note 11)*):		
Salaries and allowances	**80,394**	86,921
Retirement benefits scheme contributions	**5,855**	6,652
Severance payment	**22,812**	–
Total staff costs	**109,061**	93,573

Notes to the Consolidated Financial Statements

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the eight *(2017: ten)* Directors and the chief executive of the Company were as follows:

		Qualifying services				
			Other services in connection with the management of the affairs			
Name of Director and chief executive	Note	**Directors' fee HK$'000**	**Salaries, allowances and other benefits in kind HK$'000**	**Discretionary bonuses HK$'000**	**Retirement benefits scheme contributions HK$'000**	**Total HK$'000**
Executive Directors						
Mr. Li Qiang		**–**	**5,000**	**–**	**140**	**5,140**
Mr. Gao Fei		**–**	**5,000**	**–**	**145**	**5,145**
Mr. Shi Guangrong		**–**	**3,274**	**–**	**220**	**3,494**
Mr. Zhu Jiang		**–**	**2,287**	**–**	**42**	**2,329**
Independent Non-Executive Directors						
Ms. Shen Yan		**100**	**–**	**–**	**–**	**100**
Mr. Zhong Pengrong		**100**	**–**	**–**	**–**	**100**
Mr. Li Menggang	(a)	**42**	**–**	**–**	**–**	**42**
Ms. Dong Hairong	(b)	**57**	**–**	**–**	**–**	**57**
Total for 2018		**299**	**15,561**	**–**	**547**	**16,407**
Executive Directors						
Mr. Zhu Weisha	(c)	–	–	–	–	–
Mr. Li Qiang		–	1,175	1,000	29	2,204
Mr. Gao Fei		–	1,175	1,100	29	2,304
Mr. Shi Guangrong		–	1,754	280	155	2,189
Mr. Zhu Jiang		–	1,296	143	62	1,501
Independent Non-Executive Directors						
Ms. Shen Yan		100	–	–	–	100
Mr. Zhong Pengrong		100	–	–	–	100
Mr. Wu Jiajun		71	–	–	–	71
Mr. Li Menggang		29	–	–	–	29
Chief Executive Officer						
Mr. Kevin Choo		–	7,101	3,040	126	10,267
Total for 2017		300	12,501	5,563	401	18,765

Notes:

(a) Mr. Li Menggang resigned on 24th May 2018.

(b) Ms. Dong Hairong was appointed on 6th June 2018.

(c) During the year ended 31st December 2017, Mr. Zhu Weisha waived emoluments of approximately HK$406,000. None of other Directors had waived any emoluments during the years ended 31st December 2018 and 2017. Mr. Zhu retired on 8th March 2017.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

During the years ended 31st December 2018 and 2017, no emolument was paid by the Group to any Director as an inducement to join or upon joining the Group or as compensation for loss of office.

There were no loans, quasi-loans or other dealings in favour of the Directors that were entered into or subsisted during the years ended 31st December 2018 and 2017.

The Directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a Director or a connected entity of the Director had a material interest, whether directly or indirectly, subsisted at the end of the reporting periods or at any time during the years ended 31st December 2018 and 2017.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, three *(2017: three)* Directors are included in the five highest paid individuals of the Group. Details of Directors' and chief executive's emoluments are set out in note 11 above. The emoluments of the remaining two *(2017: two)* highest paid individuals, who are employees of the Group, are as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, allowances and other benefits in kind	**5,330**	9,184
Discretionary bonus	**3,015**	3,190
Retirement benefits scheme contributions	**204**	175
	8,549	12,549

The emoluments of the above two *(2017: two)* highest paid individual fell within the following bands:

	2018 Number of individuals	2017 Number of individuals
HK$2,000,001 – HK$2,500,000	**–**	1
HK$2,500,001 – HK$3,000,000	**1**	–
HK$5,500,001 – HK$6,000,000	**1**	–
HK$10,000,001 – HK$10,500,000	**–**	1
	2	2

During the years ended 31st December 2018 and 2017, no emolument was paid by the Group to any of the above two *(2017: two)* highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office.

13. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Borrowing costs for bank and other loans	**8,127**	12,053
Imputed interest expenses on convertible bonds	**62,830**	64,288
	70,957	76,341

14. INCOME TAX CREDIT

The taxation credited to profit or loss represents:

	2018 HK$'000	2017 HK$'000
Current tax		
PRC enterprise income tax		
Current year	**32**	565
Under-provision in prior year	**148**	–
	180	565
Deferred taxation		
Origination and reversal of temporary differences	**13,112**	(1,017)
Benefit of tax losses recognised	**(19,491)**	–
	(6,379)	(1,017)
Credit for the year	**(6,199)**	(452)

For the years ended 31st December 2018 and 2017, Hong Kong Profits Tax has not been provided as the Group did not have any assessable profit from Hong Kong.

The income tax provision in respect of operations in the PRC is calculated at the applicable tax rate of 25% on the estimated assessable profits for 2018 and 2017 based on existing legislation, interpretations and practices in respect thereof. An operating subsidiary of the Company has been officially designated by the local tax authority as "New and High Technology Enterprise" which is eligible to enjoy the preferential tax rate of 15% for 3 years and up to 9th October 2018. Another operating subsidiary of the Company has been officially designated by the local tax authority as "Participant of Development in Western China" which is exempted for part of PRC enterprise income tax. As a result, the effective tax rate for the subsidiary is 9% for 2018 *(2017: 9%)*. Certain subsidiaries of the Company have been designated as "Small Low-Profit Enterprises" which are exempted from half of PRC enterprise income tax and are eligible to enjoy the preferential tax rate of 20%. As a result, the effective tax rate for these subsidiaries are 10% for 2018 *(2017: 10%)*.

The Group has investment properties situated in the PRC, the United States and Hong Kong which are stated at fair value. Deferred taxes are recognised on changes in fair value of investment properties in the PRC taking into account the PRC land appreciation tax and enterprise income tax payable upon sales of those investment properties. No deferred taxes are recognised on changes in fair value of investment properties in Hong Kong and the United States as the investment properties in Hong Kong are not subject to any income taxes on changes in fair value of investment properties upon sales whereas the deferred tax on change in fair value of investment properties in the United States was not significant at the end of the reporting period.

14. INCOME TAX CREDIT *(Continued)*

Reconciliation of tax credit

	2018 HK$'000	2017 HK$'000
(Loss)/Profit before tax	**(404,095)**	93,740
Tax at a weighted average rate of 15.29% *(2017: 16.55%)* applicable to the jurisdictions concerned	**(61,805)**	15,517
Tax effect of non-deductible expenses	**57,197**	24,967
Tax effect of non-taxable income	**(19,654)**	(49,379)
Tax effect of utilisation of tax losses not previously recognised	**(6,091)**	(478)
Tax effect of unrecognised tax losses and temporary differences	**24,007**	8,921
Tax effect of under-provision in prior year	**148**	–
Others	**(1)**	–
Tax credit for the year	**(6,199)**	(452)

Recognised deferred tax assets and liabilities

The movement for the year in the Group's deferred tax assets and liabilities are as follows:

	Assets		Liabilities	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
At beginning of the reporting period	**–**	–	**11,251**	10,386
Exchange realignment	**(709)**	–	**(995)**	692
Credit to profit or loss	**19,491**	–	**13,112**	(1,017)
Charge to other comprehensive (loss)/income	**–**	–	**4,982**	1,190
At end of the reporting period	**18,782**	–	**28,350**	11,251

Recognised deferred tax assets and liabilities at the end of the reporting period represent the following:

	Assets		Liabilities	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Revaluation of property, plant and equipment upon transfer to investment properties	**–**	–	**(4,982)**	(1,190)
Revaluation of investment properties	**–**	–	**(23,368)**	(10,061)
Depreciation allowances	**–**	–	**(9)**	(231)
Tax losses	**18,791**	231	**–**	–
Deferred tax assets/(liabilities)	**18,791**	231	**(28,359)**	(11,482)
Offsetting	**(9)**	(231)	**9**	231
Net deferred tax assets/(liabilities)	**18,782**	–	**(28,350)**	(11,251)

14. INCOME TAX CREDIT *(Continued)*

Recognised deferred tax assets and liabilities *(Continued)*

Deferred tax asset arising from the unused tax losses of one of the PRC subsidiaries of the Company of approximately HK$18,782,000 has been recognised during the year due to the continuous profit stream in past few years and the predictability of future profit stream of this subsidiary in nearest future.

Unrecognised deferred tax assets arising from

	2018 HK$'000	2017 HK$'000
Deductible temporary differences	**5,883**	15,929
Tax losses	**517,634**	416,609
	523,517	432,538

As at 31st December 2018, the Group had unrecognised deferred tax assets of approximately HK$91,007,000 *(2017: approximately HK$78,304,000)* in respect of the tax losses and other temporary differences. As it is not probable that future taxable profits will be available against which the deductible temporary differences and the unused tax losses of the Group can be utilised, deferred tax assets have not been recognised. The deductible temporary differences do not expire under the current tax legislation.

The expiry of unrecognised tax losses are as follows:

	2018 HK$'000	2017 HK$'000
Tax losses without expiry date	**371,655**	249,876
Tax losses expiring on 31st December 2023	**72,439**	–
Tax losses expiring on 31st December 2022	**37,552**	23,332
Tax losses expiring on 31st December 2021	**19,092**	26,931
Tax losses expiring on 31st December 2020	**6,493**	49,187
Tax losses expiring on 31st December 2019	**10,403**	58,258
Tax losses expiring on 31st December 2018	**–**	9,025
	517,634	416,609

The profits earned by PRC subsidiaries from 1st January 2008 onwards would be subject to withholding tax if they are distributed. In the opinion of the Directors, all undistributed profits are expected to be retained in the PRC subsidiaries and not to be remitted out of the PRC in the foreseeable future. Accordingly, no provision for deferred tax has been made. As at 31st December 2018, retained profits earned by PRC subsidiaries amounted to approximately HK$17,685,000 *(2017: approximately HK$38,317,000)*.

15. (LOSS)/EARNINGS PER SHARE

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

	2018 **HK$'000**	2017 HK$'000
(Loss)/Profit attributable to owners of the Company	**(397,896)**	94,192

	2018 **'000**	2017 '000
Issued ordinary shares at 1st January	**1,803,089**	1,803,089
Weighted average number of ordinary shares for basic (loss)/earnings per share	**1,803,089**	1,803,089
Weighted average number of ordinary shares for diluted (loss)/earnings per share	**1,803,089**	1,803,089
	HK$	HK$
(Loss)/Earnings per share:		
– Basic	**(0.22)**	0.05
– Diluted *(Note)*	**(0.22)**	0.05

Note:

Diluted loss per share is the same as the basic loss per share for the year ended 31st December 2018 because the potential new ordinary shares to be issued on exercise of the outstanding share options under the Company's share option scheme and the potential conversion of convertible bonds matured during the year have an anti-dilutive effect on the basic loss per share for the year.

Diluted earnings per share was the same as the basic earnings per share for the year ended 31st December 2017 because the potential new ordinary shares to be issued on exercise of the outstanding share options under the Company's share option scheme and the conversion of convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share for the year.

16. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
At fair value		
At beginning of the reporting period	**585,131**	114,226
Additions	**–**	109,200
Additions – acquisition of subsidiaries	**–**	341,834
Transfer from property, plant and equipment	**16,815**	7,592
Transfer to property, plant and equipment	**(185,700)**	–
Exchange realignment	**(21,568)**	10,356
Net changes in fair value	**39,325**	1,923
At end of the reporting period	**434,003**	585,131

During the year ended 31st December 2018, the Group had activated its project for the establishment of IDC on its freehold land and building located in the United States. Management believes that the Group would provide ancillary services to the occupants of the IDC and such services are significant to the arrangement as a whole. Therefore, such land and building are considered owner-occupied properties rather than investment properties and resulted in the reclassification of their revaluated amounts of approximately HK$74,880,000 and HK$38,220,000 respectively from investment properties to property, plant and equipment.

Besides, the Group's leasehold properties in Hong Kong previously leased out to third party were taken back for the Group's own use during the year ended 31st December 2018. As a result, its revaluated amount of approximately HK$72,600,000 was reclassified from investment properties to property, plant and equipment.

During the year ended 31st December 2018, the Group's certain portion of owner-occupied property in the PRC was leased out to third parties. As a result, its revalued amount of approximately HK$16,815,000 was transferred from property, plant and equipment to investment properties.

As at 31st December 2018, the carrying amounts of the investment properties held under medium-term leases and situated in the PRC and Hong Kong were approximately HK$434,003,000 *(2017: approximately HK$417,817,000)* and HK$Nil *(2017: approximately HK$61,000,000)* respectively.

As at 31st December 2017, the carrying amount of the freehold investment properties in the United States was approximately HK$106,314,000.

The valuation techniques and input for the revaluation of investment properties are disclosed in note 7.

17. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Freehold land HK$'000	Buildings held for own use HK$'000	Leasehold property HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Reconciliation of carrying amounts – year ended 31st December 2017									
At beginning of reporting period	–	–	17,324	2,237	6,280	4,266	8,759	2,910	41,776
Additions	1,055	–	–	–	564	545	–	–	2,164
Disposals	–	–	–	–	–	(89)	(47)	(55)	(191)
Depreciation	–	–	(913)	(99)	(1,071)	(1,753)	(1,351)	(1,308)	(6,495)
Exchange realignment	–	–	1,181	–	385	208	565	39	2,378
Revaluation upon transfer to investment properties	–	–	2,761	–	–	–	–	–	2,761
Transfer to investment properties	–	–	(7,592)	–	–	–	–	–	(7,592)
At end of the reporting period	1,055	–	12,761	2,138	6,158	3,177	7,926	1,586	34,801
Reconciliation of carrying amounts – year ended 31st December 2018									
At beginning of reporting period	1,055	–	12,761	2,138	6,158	3,177	7,926	1,586	34,801
Additions	15,496	–	–	–	359	137	–	–	15,992
Disposals	–	–	–	–	–	(319)	(5,022)	–	(5,341)
Depreciation	–	–	(737)	(825)	(789)	(1,357)	(858)	(982)	(5,548)
Exchange realignment	–	–	(560)	–	(252)	(91)	(332)	(18)	(1,253)
Revaluation upon transfer to investment properties	–	–	10,687	–	–	–	–	–	10,687
Transfer from investment properties	–	74,880	38,220	72,600	–	–	–	–	185,700
Transfer to investment properties	–	–	(16,815)	–	–	–	–	–	(16,815)
At end of the reporting period	**16,551**	**74,880**	**43,556**	**73,913**	**5,476**	**1,547**	**1,714**	**586**	**218,223**
As at 31st December 2017									
Cost	1,055	–	22,437	2,972	24,510	14,467	44,079	4,477	113,997
Accumulated depreciation and impairment losses	–	–	(9,676)	(834)	(18,352)	(11,290)	(36,153)	(2,891)	(79,196)
	1,055	–	12,761	2,138	6,158	3,177	7,926	1,586	34,801
As at 31st December 2018									
Cost	16,551	74,880	47,802	75,572	23,059	10,292	21,786	4,434	274,376
Accumulated depreciation and impairment losses	–	–	(4,246)	(1,659)	(17,583)	(8,745)	(20,072)	(3,848)	(56,153)
	16,551	**74,880**	**43,556**	**73,913**	**5,476**	**1,547**	**1,714**	**586**	**218,223**

18. PREPAID LEASE PAYMENTS

Prepaid lease payments represent cost paid for medium-term leasehold land in the PRC. The cost is amortised over the leasehold period. The amount to be amortised more than twelve months after the end of the reporting period amounted to approximately HK$10,036,000 *(2017: approximately HK$10,890,000)*. The amount to be amortised within the next twelve months after the end of the reporting period of approximately HK$353,000 *(2017: approximately HK$370,000)* is presented under current assets.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 **HK$'000**	2017 HK$'000
At fair value:		
Equity securities listed in Hong Kong	–	276,590
Private investment funds	–	524,627
	–	801,217
At cost:		
Unlisted equity securities outside Hong Kong	–	78,000
Total available-for-sale financial assets	–	879,217
Current portion	–	74,555
Non-current portion	–	804,662

These investments were reclassified as financial assets at fair value through profit or loss upon change in accounting policy on adoption of HKFRS 9 on 1st January 2018, with details set out in note 20.

20. FINANCIAL ASSETS/(LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS

		2018		2017	
	Note	**Assets HK$'000**	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Equity securities listed in Hong Kong	(a)	**470,341**	**–**	112,512	–
Equity securities listed outside Hong Kong	(a)	**127,401**	**–**	144,597	–
Debt securities listed outside Hong Kong	(a)	**7,989**	**–**	–	–
Money market funds	(a)	**1,141**	**–**	309,158	–
Private investment funds	(b)	**269,954**	**–**	59,946	–
Unlisted equity securities outside Hong Kong	(c)	**67,745**	**–**	–	–
Unlisted debt securities	(d)	**78,198**	**–**	117,250	–
		1,022,769	**–**	743,463	–
Derivative financial instruments:					
Early redemption option	28	**–**	**–**	–	(50,057)
Forward exchange contract	(e)	**–**	**(3,218)**	–	–
		–	**(3,218)**	–	(50,057)
Total financial assets/(liabilities) at fair value through profit or loss		**1,022,769**	**(3,218)**	743,463	(50,057)
Less: Current portion		**(654,396)**	**3,218**	(743,463)	50,057
Non-current portion		**368,373**	**–**	–	–

Notes:

(a) The fair value of listed equity securities, listed debt securities and money market funds are based on quoted market prices in active markets as at the end of the reporting period.

(b) Included in the private investment funds were two private investment funds, one of which invested in unlisted convertible bonds issued by a listed company in Hong Kong with carrying amount of approximately HK$204,436,000 *(2017: approximately HK$249,141,000)* and another one invested in cryptocurrencies and unlisted equity investment with carrying amount of approximately HK$65,518,000 *(2017: approximately HK$99,250,000)* as at 31st December 2018.

As at 31st December 2017, there were two other private investment funds invested in listed equity securities with carrying amount of approximately HK$176,236,000, which were disposed of during the year.

(c) The investment in unlisted equity securities of a company incorporated in the Cayman Islands was not held for trading. The valuation techniques and inputs applied for fair value measurement have been disclosed in note 7.

(d) The investment in unlisted debt securities is principally for the purpose of selling in the near future. The valuation techniques and inputs applied for fair value measurement of these debt securities are disclosed in note 7.

(e) The investment in forward exchange contract is for the purpose of hedging against foreign currency risk arising from contracts with overseas customers. The fair value of forward exchange contract is based on quoted market prices in foreign exchange markets as at the end of the reporting period.

20. FINANCIAL ASSETS/(LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

At the end of the reporting period, the carrying amounts of the debt securities included in the financial assets at fair value through profit or loss represent the maximum exposure to credit risk of those financial assets and there are no significant concentrations of credit risk for those financial assets.

21. INVESTMENT PORTFOLIO

The Group discloses its ten largest investments, including individual investments with value exceeding 5% of the Group's total assets, as at 31st December 2018 and 2017 with brief description of the investee companies as follows:

As at 31st December 2018

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost HK$'000	Carrying amount HK$'000	Accumulated unrealised holding gain/(loss) arising on revaluation from the date of acquisition to 31st December 2018 HK$'000	Dividend received for the year ended 31st December 2018 HK$'000	Classification of financial assets
	Listed equity securities								
2318	Ping An Insurance (Group) Company of China Ltd. (H shares)		4,000,000	0.05%	163,816	276,600	112,784	7,863	FVPL
8137	Honbridge Holdings Limited		46,774,000	0.47%	63,208	45,839	(17,369)	–	FVPL
6060	ZhongAn Online P & C Insurance Co., Ltd. (H shares)		1,552,700	0.33%	43,718	38,895	(4,823)	–	FVPL
0880	SJM Holdings Limited		4,827,000	0.09%	44,755	35,237	(9,518)	1,110	FVPL
002199	Zhejiang East Crystal Electronic Co.,Ltd.		3,332,000	1.37%	66,283	34,872	(31,411)	–	FVPL
601238	Guangzhou Automobile Group Co., Ltd. (A shares)		2,805,973	0.04%	52,086	32,548	(19,538)	1,247	FVPL
	Unlisted debt securities								
	US Treasury Enhanced Yield Fiduciary Notes	(i)	N/A	N/A	78,000	78,198	198	–	FVPL
	Private investment funds								
	Avalon Global Fixed Income Fund LP ("Avalon Fund")	(ii)	N/A	N/A	199,500	204,436	4,936	–	FVPL
	iSun Global Restructuring-led Partnership Fund I LP ("iSun Fund")	(iii)	N/A	N/A	66,500	65,518	(982)	–	FVPL
	Unlisted equity securities								
	APAL Holdings Limited ("APAL")	(iv)	100,000,000	9.47%	78,000	67,745	(10,255)	–	FVPL

The above investments represent in aggregate over 86.0% in value of the Group's investments. Apart from the ten largest investments listed above, the Group also held various other individual investments with value representing below or approximately 1% of the Group's total assets as at 31st December 2018.

21. INVESTMENT PORTFOLIO *(Continued)*

As at 31st December 2017

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost HK$'000	Carrying amount HK$'000	Accumulated unrealised holding gain/(loss) arising on revaluation from the date of acquisition to 31st December 2017 HK$'000	Dividend received for the year ended 31st December 2017 HK$'000	Classification of financial assets
	Listed equity securities								
2318	Ping An Insurance (Group) Company of China Ltd. (H shares)		4,000,000	0.05%	163,816	325,400	161,584	9,863	Available-for-sale, at fair value/FVPL
002199	Zhejiang East Crystal Electronic Co.,Ltd.		3,392,414	1.39%	70,738	62,296	(8,442)	–	FVPL
	Unlisted debt securities								
	US Treasury Enhanced Yield Fiduciary Notes	(i)	N/A	N/A	117,000	117,250	250	–	FVPL
	Money market funds								
	China Minsheng Bank Corp., Ltd		N/A	N/A	281,732	282,048	316	–	FVPL
	Private investment funds								
	Avalon Fund	(ii)	N/A	N/A	199,500	249,141	49,641	–	Available-for-sale, at fair value
	Ciccjiazi Holdings Limited		1,552,700	4.97%	78,000	101,681	23,681	–	Available-for-sale, at fair value
	iSun Fund	(iii)	N/A	N/A	50,000	99,250	49,250	–	Available-for-sale, at fair value
	MaxWealth Great China Fixed Income Fund II LP		N/A	7.72%	60,000	74,555	14,555	–	Available-for-sale, at fair value
	Minsheng Wealth Management Co., Ltd.		N/A	N/A	58,261	59,946	1,685	–	FVPL
	Unlisted equity securities								
	APAL	(iv)	100,000,000	9.47%	78,000	78,000	–	–	Available-for-sale, at cost

The above investments represented in aggregate over 89.3% in value of the Group's investments. Apart from the ten largest investments listed above, the Group also held various other individual investments with value representing below or approximately 1% of the Group's total assets as at 31st December 2017.

Notes to the Consolidated Financial Statements

21. INVESTMENT PORTFOLIO *(Continued)*

Notes:

(i) US Treasury Enhanced Yield Fiduciary Notes are issued by UBS (Luxembourg) Issuer SA under its EUR10,000,000,000 Fiduciary Note Programme. The proceeds are mainly invested into US Treasury Bills, US Treasury Notes and 91-Day Bills as auctioned by the US Department of the Treasury. As at 31st December 2018, the fair value of the investment in US Treasury Enhanced Yield Fiduciary Note is approximately HK$78,198,000 *(2017: approximately HK$117,250,000)* by reference to the quoted US Treasury Bills and US Treasury Notes rates using discounted cash flow model.

(ii) Avalon Fund is a Cayman Islands exempted limited partnership with the principal purpose of primarily subscribing for convertible bonds of the portfolio company and temporary investments. The Avalon Fund may also achieve capital appreciation through equity and equity-related investments in certain industries. The partnership is managed by the general partner, MaxWealth Investment Management Limited, which holds the property of the partnership on behalf of the partnership. The partnership shall continue in existence for two years unless dissolution of the partnership. The objective of the partnership is to produce attractive returns on the capital from the partnership while managing investment risk. As at 31st December 2018, the fair value of the partnership is approximately HK$252,855,000 *(2017: approximately HK$502,575,000)* by reference to the valuation on the convertible bonds of the portfolio company from the investment manager using Binomial Option Pricing Model. For details of the Avalon Fund, please refer to the announcements of the Company dated 24th August 2017 and 6th September 2017.

(iii) iSun Fund is a Cayman Islands exempted limited partnership, with the principal objective of primarily target investments in public or private companies or digital assets (such as cryptocurrencies) in the data centre, fintech or high tech (software and hardware) sectors. The partnership is managed by the general partner, iSun GP I Limited, which holds the property of the partnership on behalf of the partnership. The partnership shall continue in existence for five years unless dissolution of the partnership. The objective of the partnership is to produce attractive returns on the capital from the partnership while managing investment risk. As at 31st December 2018, the fair value of the partnership is approximately HK$65,518,000 *(2017: approximately HK$115,666,000)* by reference to the quoted prices of the underlying investments and the valuation on the unlisted equity securities from the investment manager using discounted cash flows model. For details of the iSun Fund, please refer to the announcement of the Company dated 25th July 2017 and 9th February 2018.

(iv) APAL is an exempt company incorporated in the Cayman Islands with limited liability. APAL and its subsidiaries are principally engaged in the business of global aircraft leasing, aircraft trading, securitised aircraft leasing financial products, aircraft parts trading, maintenance of aircraft, dismantling aircraft and other related consulting services. As at 31st December 2018, the fair value of the unlisted equity securities was approximately HK$715,389,000 by reference to the valuation provided by an independent professional qualified valuer using direct comparison approach with unobservable inputs.

22. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Raw materials	**9,071**	58,581
Work-in-progress	**–**	18,187
Finished goods	**3,860**	5,229
	12,931	81,997

23. LOANS RECEIVABLE

	2018 HK$'000	2017 HK$'000
Loans receivable from third party:		
– due within one year	**119,937**	125,325

The loans receivable comprise approximately RMB105,089,000 (equivalent to approximately HK$119,937,000) *(2017: approximately RMB104,759,000, equivalent to approximately HK$125,325,000)* loans to an independent third party borrower, which are secured by a personal guarantee provided by a major shareholder of the borrower. The loans are interest-bearing at 8% per annum and repayable in May 2019. The loans were initially lent to the borrower on 17th May 2017, interest-bearing at 8% per annum and repayable in May 2018. During the year, accrued interest of approximately HK$9,229,000 was repaid at maturity and extension agreements were entered into between the borrower and the Company's wholly-owned subsidiaries for one year under the same terms of the initial agreements.

Details of the loans and extension of the loans were disclosed in the Company's announcements dated 17th May 2017 and 17th May 2018, and note 22(b) to the consolidated financial statements in the 2017 annual report.

24. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**170,463**	130,499
Less: Loss allowance	**(897)**	(2,442)
	169,566	128,057
Other receivables, net of loss allowance	**2,617**	8,249
Prepayments and deposits	**26,952**	39,239
Total trade and other receivables	**199,135**	175,545

The ageing analysis of trade receivables (net of loss allowance) by invoice date at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
0-30 days	**66,920**	90,176
31-60 days	**79,721**	31,422
61-90 days	**7,517**	525
91-365 days	**15,408**	5,934
	169,566	128,057

25. INVESTMENT IN AN INSURANCE CONTRACT/OTHER RECEIVABLE

	2018 **HK$'000**	2017 HK$'000
Other receivable	**8,467**	8,467
Less: Loss allowance	**(8,467)**	–
	–	8,467

On 4th November 2015, the Company entered into a service agreement with Mr. Kevin Choo as the Vice-President of Global Operations of the Group with a fixed term of two years commencing from 1st April 2015. Mr. Choo was promoted to chief executive officer on 18th November 2015 with terms and conditions of the service agreement remained unchanged. Details of the appointment of Mr. Choo and the service agreement were disclosed in the Company's announcement dated 18th November 2015.

Under the service agreement, Mr. Choo's employment package, including salary, year-end payment, package bonus and other allowances, was secured by a pension scheme. If the Company failed to pay Mr. Choo's employment package in full upon expiration of the service agreement or termination of the service agreement initiated by the Company, Mr. Choo would be entitled to the remaining portion of the redeemed funds from the pension scheme with the remaining amount returned to the Company. However, if the Company had fulfilled its payment obligation in accordance with the service agreement, the Company would be entitled to the whole redeemed funds from the pension scheme.

The Company invested in an insurance contract with one-off premium of USD1,408,000 (equivalent to approximately HK$10,920,000) under the name of Mr. Choo, with Mr. Choo as the sole beneficiary and no expiry date during the year ended 31st December 2015 accordingly. Although Mr. Choo was the sole beneficiary of the insurance contract but in substance, the Company had control over the redemption of the insurance contract except when the clause of unsettlement of Mr. Choo's employment package under the service agreement is triggered. As the insurance contract had been decided by the management to be held for long-term purpose, the cost of insurance premium was recognised as financial asset under non-current assets in the consolidated statement of financial position as at 31st December 2016.

According to the insurance contract, the redeemed fund comprised of an unguaranteed return based on the rate of return estimated by the insurance company and a guaranteed return upon the redemption of the insurance contract. Thus, the insurance premium is considered to have two components, the unguaranteed return (i.e. the derivative financial instrument) and the guaranteed return (loan and receivables) in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*.

Mr. Choo resigned as chief executive officer on 15th December 2017. Since the Company had fulfilled its payment obligation in full upon the resignation of Mr. Choo, it was entitled to exercise control over the redemption of the insurance contract.

After the resignation of Mr. Choo, the management decided to early redeem the insurance contract and use the redeemed fund for other investment opportunities. The redemption was completed in January 2018.

25. INVESTMENT IN AN INSURANCE CONTRACT/OTHER RECEIVABLE *(Continued)*

As a result, other receivable and the derivative financial instrument under the investment in an insurance contract were written down to its estimated recoverable amount of approximately HK$8,467,000 and HK$Nil respectively and were reclassified as current assets in the consolidated statement of financial position as at 31st December 2017. This resulted in recognition of write off of other receivable of approximately HK$2,882,000 in the consolidated income statement for the year ended 31st December 2017. The imputed interest income in respect of the other receivable of approximately of HK$171,000 was recognised in the consolidated income statement for the year ended 31st December 2017.

The redeemed amount of the insurance contract amounted to approximately HK$8,467,000 (the "Redeemed Balance") was refunded to Mr. Choo in January 2018 which ought to have been returned to the Company. Thus, the amount was reclassified from investment in an insurance contract to other receivable accordingly.

After using various ways to recover the Redeemed Balance due from Mr. Choo without success, the Company initiated litigation to the High Court against Mr. Choo in November 2018.

Final judgement was issued in December 2018, pursuant to which Mr. Choo was ordered to return the Company the Redeemed Balance together with accrued interests thereon.

At the date of approval of these consolidated financial statements, the Redeemed Balance has not yet been returned and the Company will be taking further action to enforce the judgement.

Taking into account the possibility of realising the Redeemed Balance from Mr. Choo, the Company has considered it appropriate to recognise full allowance for the Redeemed Balance during the year ended 31st December 2018.

26. TRADE AND OTHER PAYABLES

	Note	2018 HK$'000	2017 HK$'000
Trade payables	(a)	**124,805**	133,203
Contract liabilities	(b)	**17,484**	15,384
Other payables		**24,908**	32,550
Accruals		**32,017**	34,287
		199,214	215,424

Notes:

(a) The ageing analysis of trade payables by invoice date at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
0-30 days	**39,732**	58,290
31-60 days	**24,112**	50,122
61-90 days	**41,131**	14,566
Over 90 days	**19,830**	10,225
	124,805	133,203

(b) The movements (excluding those arising from increases and decreases both occurred within the same year) of contract liabilities from contracts with customers within HKFRS 15 during the year are as follows:

	2018 HK$'000
As at 1st January	**15,384**
Exchange realignment	**(3)**
Recognised as revenue	**(14,355)**
Receipt of advances or recognition of receivables	**17,317**
Released as other net income	**(859)**
As at 31st December	**17,484**

As at 31st December 2018, the contract liabilities that are expected to be settled after more than 12 months are HK$Nil.

27. BANK AND OTHER LOANS

	Note	**2018 HK$'000**	2017 HK$'000
Current and secured			
Bank loans with repayment on demand clause	(a)	**200,000**	215,000
Term loans from banks with repayment on demand clause	(a)	**38,651**	353,054
Other loan with a repayment on demand clause	(b)	**6,600**	64,813
		245,251	632,867
Analysis of the amounts due based on scheduled payment dates set out in the loan agreements (ignoring the effect of any repayment on demand clause) is as follows:			
On demand or within one year		**242,225**	628,467
After one but within two years		**432**	1,376
After two but within five years		**1,365**	1,333
After five years		**1,229**	1,691
		245,251	632,867

Notes:

(a) As at 31st December 2018, the bank loans carried variable interest rates ranging from 2.58% to 6.09% *(2017: 2.01% to 4.35%)* per annum. The bank loans are secured by the assets of the Group as set out in note 33.

(b) This represented a margin loan from a securities broker carried interest rates ranging from 6.4% to 7.6% *(2017: 6.4% to 9%)* per annum, subject to periodic review. The loan is secured by funds and listed securities held by the securities broker of approximately RMB9,830,000 (equivalent to approximately HK$11,219,000) and RMB37,789,000 (equivalent to approximately HK$43,128,000) respectively *(2017: approximately RMB73,000 (equivalent to approximately HK$87,000) and RMB108,783,000 (equivalent to approximately HK$130,139,000) respectively)*. According to the margin loan agreement, the pledged assets have to be maintained at certain ratio of the loan amount.

28. CONVERTIBLE BONDS

On 20th June 2017 (the "Bond Issue Date"), the Company issued convertible bonds in the principal amount of HK$504,000,000 (the "Convertible Bonds") to an independent third party. The Convertible Bonds were interest-bearing at the rate of 6% per annum. Such interest was accrued at the outstanding principal amount of the Convertible Bonds and would only be payable by the Company to the bondholder once every six months from the Bond Issue Date if the Convertible Bonds were neither converted during the conversion period nor redeemed prior to 20th June 2018 (the "Bond Maturity Date"). The Convertible Bonds can be converted into maximum 360,000,000 ordinary shares of the Company at a conversion price of HK$1.4 per share (subject to adjustments). The conversion period commenced from the 180th day after the Bond Issue Date and ended on the five business days prior to the Bond Maturity Date (the "Conversion Period").

Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled, the Company would redeem all the outstanding Convertible Bonds held by the bondholder on the Bond Maturity Date at an amount equal to the outstanding principal amount of the Convertible Bonds together with accrued and unpaid interest on the Bond Maturity Date.

Early redemption at the options of the Company and the bondholder

The Company at any time three months after the Bond Issue Date and the bondholder at any time six months after the Bond Issue Date may give early redemption notice to each other to redeem the Convertible Bonds in full or in part held by the bondholder at an amount equal to the redeemed principal amount of the Convertible Bonds together with the relevant 6% accrued and unpaid interest up to the Bond Maturity Date.

At initial recognition, the Convertible Bonds were separated into a liability component, comprising straight debt component of the bonds and embedded derivatives (i.e. early redemption options by the Company and the bondholder) ("Derivative Component"), and an equity component representing the conversion options of the bondholder. As the early redemption options were considered not closely related to the host contract, they were separately recognised at fair value and classified as financial liabilities at fair value through profit or loss under current liabilities. The equity component was recognised in the convertible bond reserves, whereas the debt component was recognised at amortised cost under current liabilities. The effective interest rate of the liability component on initial recognition was 29.6% per annum and was subsequently carried at amortised cost.

The Convertible Bonds were redeemed at the redemption price equal to the outstanding principal amount of HK$504,000,000 on the Bond Maturity Date. Gain on derecognition of financial liabilities of approximately HK$45,490,000 was recognised in the consolidated income statement and the convertible bond reserves of approximately HK$37,676,000 was released to retained profits.

28. CONVERTIBLE BONDS *(Continued)*

The movements of the liability component of the Convertible Bonds are set out below:

	HK$'000
Debt component, classified as financial liability at amortised cost	
Nominal value of the Convertible Bonds at Bond Issue Date	504,000
Fair value of Derivative Component at Bond Issue Date	(55,393)
Equity component at Bond Issue Date	(37,676)
Issue costs attributable to the debt component	(3,809)
Fair value of debt component at Bond Issue Date	407,122
Imputed interest expenses	64,288
Repaid interest	(15,161)
As at 31st December 2017 and as at 1st January 2018	456,249
Imputed interest expenses	62,830
Repaid interest	(15,079)
Redemption of Convertible Bonds	(504,000)
As at 31st December 2018	–
Derivative Component, classified as financial liabilities at fair value through profit or loss	
Fair value at Bond Issue Date	55,393
Fair value change	(5,336)
As at 31st December 2017 and as at 1st January 2018	50,057
Fair value change	(4,567)
Derecognition upon redemption of Convertible Bonds	(45,490)
As at 31st December 2018	–

The fair values of the Derivative Component on 31st December 2017 and the Bond Maturity Date were determined with reference to professional valuation conducted by an independent professional qualified valuer using Binomial Option Pricing Model with unobservable market data.

29. SHARE CAPITAL

	Number of shares		Amount	
	2018	2017	**2018**	2017
	'000	'000	**HK$'000**	HK$'000
Authorised:				
At beginning and end of the reporting period Ordinary shares of HK$0.025 each	**8,000,000**	8,000,000	**200,000**	200,000
Issued and fully paid:				
At beginning and end of the reporting period Ordinary shares of HK$0.025 each	**1,803,089**	1,803,089	**45,077**	45,077

Notes to the Consolidated Financial Statements

30. RESERVES

For the year ended 31st December 2018

	Share premium HK$'000 (Note (a)(i))	Statutory reserves HK$'000 (Note (a)(ii))	Contributed surplus HK$'000 (Note (a)(iii))	Share option reserves HK$'000 (Note (a)(iv))	Investment revaluation reserves HK$'000 (Note (a)(v))	Convertible bond reserves HK$'000 (Note (a)(vi))	Property revaluation reserves HK$'000 (Note (a)(vii))	Translation reserves HK$'000 (Note (a)(viii))	Other reserves HK$'000 (Note (a)(ix))	Retained profits HK$'000	Total HK$'000
As at 1st January 2017	133,249	8,668	234,621	70,850	(24,446)	–	17,264	31,312	(1,113)	1,443,355	1,913,760
Profit for the year	–	–	–	–	–	–	–	–	–	94,192	94,192
Other comprehensive income:											
Revaluation of property, plant and equipment upon transfer to investment properties (net of tax)	–	–	–	–	–	–	1,571	–	–	–	1,571
Change in fair value of available-for-sale financial assets	–	–	–	–	426,721	–	–	–	–	–	426,721
Reclassification of net changes in fair value of available-for-sale financial assets to profit or loss upon disposal	–	–	–	–	(125,427)	–	–	–	–	–	(125,427)
Exchange differences arising on translation of PRC subsidiaries	–	–	–	–	–	–	–	30,825	–	–	30,825
Total other comprehensive income	–	–	–	–	301,294	–	1,571	30,825	–	–	333,690
Total comprehensive income for the year	–	–	–	–	301,294	–	1,571	30,825	–	94,192	427,882
Transactions with owners:											
Contributions and distributions											
Share options lapsed	–	–	–	(1,411)	–	–	–	–	–	1,411	–
Issue of convertible bonds	–	–	–	–	–	37,676	–	–	–	–	37,676
Change in ownership interest											
Reclassification adjustment of reserves related to a disposed subsidiary	–	–	–	–	–	–	–	(9,929)	1,113	–	(8,816)
Total transactions with owners	–	–	–	(1,411)	–	37,676	–	(9,929)	1,113	1,411	28,860
As at 31st December 2017 and as at 1st January 2018	133,249	8,668	234,621	69,439	276,848	37,676	18,835	52,208	–	1,538,958	2,370,502
Change in accounting policy on adoption of HKFRS 9	–	–	–	–	(276,848)	–	–	–	–	276,848	–
As at 1st January 2018 (as restated)	133,249	8,668	234,621	69,439	–	37,676	18,835	52,208	–	1,815,806	2,370,502
Loss for the year	–	–	–	–	–	–	–	–	–	(397,896)	(397,896)
Other comprehensive loss:											
Revaluation of property, plant and equipment upon transfer to investment properties (net of tax)	–	–	–	–	–	–	5,705	–	–	–	5,705
Exchange differences arising on translation of PRC subsidiaries	–	–	–	–	–	–	–	(35,456)	–	–	(35,456)
Total other comprehensive loss	–	–	–	–	–	–	5,705	(35,456)	–	–	(29,751)
Total comprehensive loss for the year	–	–	–	–	–	–	5,705	(35,456)	–	(397,896)	(427,647)
Transactions with owners:											
Contributions and distributions											
Share options lapsed	–	–	–	(13,827)	–	–	–	–	–	13,827	–
Redemption of equity component of convertible bonds upon maturity	–	–	–	–	–	(37,676)	–	–	–	37,676	–
Total transactions with owners	–	–	–	(13,827)	–	(37,676)	–	–	–	51,503	–
As at 31st December 2018	**133,249**	**8,668**	**234,621**	**55,612**	**–**	**–**	**24,540**	**16,752**	**–**	**1,469,413**	**1,942,855**

30. RESERVES *(Continued)*

Notes:

(a) *Nature and purpose of reserves*

(i) Share premium

The application of the share premium account is governed by Section 46(2) of the Companies Act 1981 of Bermuda.

(ii) Statutory reserves

Statutory reserves comprise statutory surplus reserves fund of the subsidiaries in the PRC and form part of shareholders' fund. According to the articles of association of certain subsidiaries, the subsidiaries are required to transfer 10% of the profit after tax to the statutory surplus reserves fund until the fund balance reaches 50% of the registered capital. The transfer to the funds must be made before distributing dividends to shareholders.

(iii) Contributed surplus

The contributed surplus represents the difference between the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of shares issued by the Company for each acquisition at the time of the Group reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(iv) Share option reserves

The share option reserves comprise the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments.

(v) Investment revaluation reserves

The investment revaluation reserves comprise the cumulative net changes in the fair value of available-for-sale financial assets.

30. RESERVES *(Continued)*

Notes: (Continued)

(a) Nature and purpose of reserves (Continued)

(vi) Convertible bond reserves

Conversion bond reserves represent equity portion of convertible bonds.

(vii) Property revaluation reserves

The property revaluation reserves comprise the net changes in fair value arising on the revaluation of properties held for own use upon transfer to investment properties.

(viii) Translation reserves

The translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(ix) Other reserves

The other reserves have been set up and dealt with in accordance with the accounting policies adopted for the changes in ownership interests in subsidiaries that do not result in a loss of control.

31. OTHER CASH FLOW INFORMATION

Changes in liabilities arising from financing activities

Details of the changes in the Group's liabilities from financing activities are as follows:

	Bank and other loans HK$'000	Convertible bonds HK$'000	Total HK$'000
As at 1st January 2017	443,674	–	443,674
Net cash flows	155,189	485,030	640,219
Exchange differences	21,951	–	21,951
Fair value of Derivative Component at Bond Issue Date	–	(55,393)	(55,393)
Equity component	–	(37,676)	(37,676)
Interest accrued	12,053	64,288	76,341
As at 31st December 2017 and as at 1st January 2018	632,867	456,249	1,089,116
Net cash flows	(376,788)	(519,079)	(895,867)
Exchange differences	(18,955)	–	(18,955)
Interest accrued	8,127	62,830	70,957
As at 31st December 2018	**245,251**	**–**	**245,251**

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31st December 2018

	Note	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries		**1,171,923**	1,130,523
Available-for-sale financial assets		**–**	276,590
Financial assets at fair value through profit or loss		**235,110**	–
		1,407,033	1,407,113
CURRENT ASSETS			
Prepayments, deposits paid and other receivables		**3,010**	2,699
Financial assets at fair value through profit or loss		**80,547**	87,845
Investment in an insurance contract		**–**	8,467
Pledged bank deposits		**238,032**	394,353
Cash and bank balances		**42,022**	138,958
		363,611	632,322
CURRENT LIABILITIES			
Other payables		**924**	2,038
Dividend payables		**31**	31
Convertible bonds		**–**	456,249
Financial liabilities at fair value through profit or loss		**–**	50,057
Amounts due to subsidiaries		**1,360,244**	968,541
		1,361,199	1,476,916
NET CURRENT LIABILITIES		**(997,588)**	(844,594)
NET ASSETS		**409,445**	562,519
CAPITAL AND RESERVES			
Share capital		**45,077**	45,077
Reserves	(a)	**364,368**	517,442
TOTAL EQUITY		**409,445**	562,519

Approved and authorised for issue by the Board on 20th March 2019 and signed on its behalf by:

Li Qiang
Director

Shi Guangrong
Director

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

(a) Reserves

	Share premium HK$'000 (note 30(a)(i))	Contributed surplus HK$'000 (note 30(a)(iii))	Share option reserves HK$'000 (note 30(a)(iv))	Investment revaluation reserves HK$'000 (note 30(a)(v))	Convertible bond reserves HK$'000 (note 30(a)(vi))	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
As at 1st January 2017	133,249	380,621	70,850	(10,188)	–	(237,259)	337,273
Loss for the year	–	–	–	–	–	(7,417)	(7,417)
Other comprehensive income:							
Change in fair value of available-for-sale financial assets	–	–	–	220,810	–	–	220,810
Reclassification of net changes in fair value of available-for-sale financial assets to profit or loss upon disposal	–	–	–	(70,900)	–	–	(70,900)
Total other comprehensive income	–	–	–	149,910	–	–	149,910
Total comprehensive income for the year	–	–	–	149,910	–	(7,417)	142,493
Transactions with owners:							
Contributions and distributions							
Share options lapsed	–	–	(1,411)	–	–	1,411	–
Issue of convertible bonds	–	–	–	–	37,676	–	37,676
Total transactions with owners	–	–	(1,411)	–	37,676	1,411	37,676
As at 31st December 2017 and as at 1st January 2018	133,249	380,621	69,439	139,722	37,676	(243,265)	517,442
Change in accounting policy on adoption of HKFRS 9	–	–	–	(139,722)	–	139,722	–
As at 1st January 2018 (as restated)	133,249	380,621	69,439	–	37,676	(103,543)	517,442
Loss for the year	–	–	–	–	–	(153,074)	(153,074)
Total comprehensive loss for the year	–	–	–	–	–	(153,074)	(153,074)
Transactions with owners:							
Contributions and distributions							
Share options lapsed	–	–	(13,827)	–	–	13,827	–
Redemption of equity component of convertible bonds upon maturity	–	–	–	–	(37,676)	37,676	–
Total transactions with owners	–	–	(13,827)	–	(37,676)	51,503	–
As at 31st December 2018	**133,249**	**380,621**	**55,612**	**–**	**–**	**(205,114)**	**364,368**

33. PLEDGE OF ASSETS

As at 31st December 2018, the Group had pledged the following assets to secure the loan facilities *(2017: loan facilities and convertible bonds)*:

		2018 HK$'000	2017 HK$'000
(a)	Investment properties	**89,058**	73,966
(b)	Buildings	**5,336**	5,440
(c)	Leasehold property	**73,913**	2,138
(d)	Leasehold improvements	**153**	–
(e)	Prepaid lease payments	**7,762**	1,891
(f)	Available-for-sale financial assets	**–**	276,590
(g)	Financial assets at fair value through profit or loss	**121,326**	296,199
(h)	Bank deposits	**254,660**	1,030,521

34. COMMITMENTS UNDER OPERATING LEASES

(a) The Group as lessee

As at 31st December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**3,514**	7,575
In the second to fifth year inclusive	**625**	719
	4,139	8,294

Leases are negotiated for term ranging from one to three years with fixed rentals.

34. COMMITMENTS UNDER OPERATING LEASES *(Continued)*

(b) The Group as lessor

As at 31st December 2018, the Group had contracted with tenants for the following future minimum rental receivables under non-cancellable operating leases of the Group's investment properties:

	2018 HK$'000	2017 HK$'000
Within one year	**34,854**	34,665
In the second to fifth year inclusive	**129,072**	129,457
Later than fifth year	**101,749**	140,544
	265,675	304,666

Leases are negotiated for term ranging from one to ten years with fixed rentals.

35. CONTINGENT LIABILITIES

During the year, some customers complained to the Beijing Administration for Industry and Commerce that they suffered losses due to false publicity and unfair competition of the products sold by a wholly-owned subsidiary of the Company. The revenue generated from these products for the year amounted to approximately HK$675,000.

Up to the date of approval of these consolidated financial statements, the wholly-owned subsidiary has been undergoing investigation by the Beijing Administration for Industry and Commerce. Based on the Directors' best estimate, the outcome of the complaints will not have a material adverse effect on the Group and therefore no provision has been made in the consolidated financial statements.

36. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to the ordinary resolutions passed by the Shareholders at the special general meeting ("SGM") on 14th January 2015 (the "Option Adoption Date"). The Share Option Scheme is valid for ten years from the Option Adoption Date and shall expire at the close of business on the day immediately preceding the 10th anniversary thereof unless terminated earlier by Shareholders in general meeting.

The purpose of the Share Option Scheme is to enable the Company to grant share options to the selected eligible participants as incentives or rewards for their contribution or potential contribution to the growth and development of the Group.

The Directors may, at their absolute discretion, invite any person belonging to any of the following categories of participants (the "Eligible Participants") to take up share options to subscribe for the Shares:

Category A Eligible Participants

(a) any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time) of any member of the Group or any substantial shareholder or any company controlled by a substantial shareholder; or

(b) any individual for the time being seconded to work for any member of the Group or any substantial shareholder or any company controlled by a substantial shareholder.

36. SHARE OPTION SCHEME *(Continued)*

Category B Eligible Participants

Any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group and shall include any company controlled by one or more persons belonging to any of the above classes of participants.

Options granted to the Eligible Participants are subject to vesting conditions. Options granted to an eligible participant who has joined the Group for more than three years are subject to a vesting scale in tranches of 40%, 30% and 30% each per annum starting from the date of grant and will become fully vested on the third anniversary of the grant. Options granted to an eligible participant who has joined the Group for less than three years are subject to a vesting scale in tranches of 10%, 20%, 35% and 35% each per annum from the second to the fifth year after the grant and will become fully vested on the fifth anniversary of the grant.

The total number of shares which may be issued upon the exercise of all share options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total issued share capital of the Company on the Option Adoption Date (the "Scheme Mandate") unless the Company obtains an approval from the Shareholders to renew the 10% limit on the basis that the maximum number of shares in respect of which share options may be granted under the Share Option Scheme together with any share options outstanding and yet to be exercised under the Share Option Scheme and any other share option schemes shall not exceed 30% of the total issued share capital of the Company from time to time. At the SGM which was held on the Option Adoption Date, the Scheme Mandate was approved by the Shareholders and the total number of shares that may fall to be allotted and issued under the Share Option Scheme would be 179,211,680 shares, representing 10% of the total number of shares in issue as at the Option Adoption Date and 0.61% of the total number of shares in issue as at the date of this report.

The maximum number of shares issued and to be issued upon the exercise of the share options granted under the Share Option Scheme and any other share option schemes of the Company to any eligible participant (including cancelled, exercised and outstanding share options), in any 12-month period up to the date of grant shall not exceed 1% of the number of shares in issue, without prior approval from the Shareholders. Any grant of a share option to a Director, chief executive of the Company or substantial shareholder (or any of their respective associates) must be approved by the Independent Non-Executive Directors. Where any grant of share options to a substantial shareholder or an Independent Non-Executive Director (or any of their respective associates) will result in the total number of shares issued and to be issued upon the exercise of the share options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of the Company (including share options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant: (i) representing in aggregate over 0.1% of the Shares in issue; and (ii) having an aggregate value, based on the closing price of the Shares at each date of grant, in excess of HK$5,000,000, such further grant of share options is required to be approved by the Shareholders in general meeting.

36. SHARE OPTION SCHEME *(Continued)*

An offer for the grant of share options must be accepted within 30 days inclusive of the day on which such offer was made. The amount payable by the grantee of a share option to the Company on acceptance of the offer for the grant of a share option is HK$1.0. A share option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period commencing on such date on or after the date on which the share option is granted as the Board may determine in granting the share options and expiring at the close of business on such date as the Board may determine in granting the share options but in any event shall not exceed ten years from the date of grant (which is the date of offer of grant if the offer for the grant of the share options is accepted). The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of: (i) the closing price of the Shares on the date of offer of grant; and (ii) the average closing price of the Shares for the five business days immediately preceding the date of offer of grant, provided that the option price per share shall in no event be less than the nominal amount of the Shares.

On 16th January 2015, the Company offered to grant 186 Eligible Participants to subscribe for a total of 107,527,008 ordinary shares of HK$0.025 each in the capital of the Company at an exercise price HK$2.2 per share ("Share Options"). These Share Options are exercisable up to five years from the date of grant. On 8th June 2016, the Company removed vesting period of all existing Share Options which are outstanding and unvested under the Share Option Scheme pursuant to the ordinary resolutions passed by the Shareholders at a SGM and such Share Options therefore shall be immediately vested with the consent of relevant Share Options holders. As a result, non-cash share-based compensation expenses in respect of all outstanding and unvested Share Options at the date of approval of removal of vesting period of the Share Options of approximately HK$7,564,000 was recognised as expense by the Group with the same amount credited to share option reserves under equity for the year ended 31st December 2016. For details of the amendment of the terms of Share Options, please refer to the Company's announcement dated 18th May 2016 and the circular dated 23rd May 2016.

No share options were granted or exercised during the years ended 31st December 2018 and 2017.

(a) Movements in Share Options:

	Number of options	
	2018	2017
At beginning of the reporting period	**93,871,008**	95,763,008
Lapsed during the year	**(18,822,000)**	(1,892,000)
At end of the reporting period	**75,049,008**	93,871,008

(b) Terms of vested and unexercised Share Options at the end of the reporting period:

Date of grant	Exercise period	Exercise price per share HK$	Number of options 2018	2017
16th January 2015	16th January 2015 – 15th January 2020	2.2	**75,049,008**	93,871,008

Notes to the Consolidated Financial Statements

36. SHARE OPTION SCHEME *(Continued)*

(c) Details of Share Options granted

Details of the movements of Share Options granted to subscribe for the Shares are as follows:

For the year ended 31st December 2018

				Number of shares issuable under the Share Options					
Category	Date of grant	Exercise price per share HK$	Exercisable period*	Outstanding as at 1st January 2018	Granted during the year	Reclassification of Category during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2018
Directors									
Mr. Shi Guangrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,500,000	–	–	–	–	**6,500,000**
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 – 15th January 2020	7,000,000	–	–	–	–	**7,000,000**
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	–	–	–	–	**1,000,000**
Mr. Zhong Pengrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	–	–	–	–	**1,000,000**
Continuous contract employees	16th January 2015	2.2	16th January 2015 – 15th January 2020	50,516,776	–	(7,098,000)	–	(3,420,000)	**39,998,776**
Suppliers of goods or services	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,920,000	–	–	–	(1,000,000)	**920,000**
Other eligible participants	16th January 2015	2.2	16th January 2015 – 15th January 2020	25,934,232	–	7,098,000	–	(14,402,000)	**18,630,232**
				93,871,008	–	–	–	(18,822,000)	**75,049,008**
Outstanding as at 31st December 2018									**75,049,008**
Weighted average exercise price *(HK$)*				2.2	–	2.2	–	2.2	**2.2**

36. SHARE OPTION SCHEME *(Continued)*

(c) Details of Share Options granted *(Continued)*

For the year ended 31st December 2017

				Number of shares issuable under the Share Options					
Category	Date of grant	Exercise price per share HK$	Exercisable period*	Outstanding as at 1st January 2017	Granted during the year	Reclassification of Category during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2017
Directors									
Mr. Zhu Weisha (retired on 8th March 2017)	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,792,116	–	(1,792,116)	–	–	–
Mr. Shi Guangrong	16th January 2015	2.2	16th January 2015 - 15th January 2020	6,500,000	–	–	–	–	6,500,000
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 - 15th January 2020	7,000,000	–	–	–	–	7,000,000
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,000,000	–	–	–	–	1,000,000
Mr. Zhong Pengrong	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,000,000	–	–	–	–	1,000,000
Mr. Wu Jiajun (resigned on 15th September 2017)	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,000,000	–	–	–	(1,000,000)	–
Chief Executive Officer									
Mr. Kevin Choo (resigned on 15th December 2017)	16th January 2015	2.2	16th January 2015 - 15th January 2020	8,000,000	–	(8,000,000)	–	–	–
Continuous contract employees	16th January 2015	2.2	16th January 2015 - 15th January 2020	61,550,892	–	(10,142,116)	–	(892,000)	50,516,776
Suppliers of goods or services	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,920,000	–	–	–	–	1,920,000
Other eligible participants	16th January 2015	2.2	16th January 2015 - 15th January 2020	6,000,000	–	19,934,232	–	–	25,934,232
				95,763,008	–	–	–	(1,892,000)	93,871,008
Outstanding as at 31st December 2017									93,871,008
Weighted average exercise price *(HK$)*				2.2	–	2.2	–	2.2	2.2

* Share Options granted to the Directors, Chief Executive Officer, continuous contract employees, suppliers of goods or services and other eligible participants are subject to vesting conditions. However, the vesting period of all existing Share Options granted to the Directors, Chief Executive Officer, continuous contract employees, suppliers of goods or services and other eligible participants which are outstanding and unvested has been removed with the approval of the Shareholders at the SGM held on 8th June 2016.

Notes:

(i) The price of the Shares before the date of the grant of the Share Options is the closing price of the Shares as quoted on the Stock Exchange on the trading day immediately before the date on which the share options were granted.

(ii) 18,822,000 *(2017: 1,892,000)* Share Options were lapsed according to the terms of the Share Option Scheme during the year under review.

36. SHARE OPTION SCHEME *(Continued)*

(d) The cost of Share Options granted is estimated on the date of the grant using the Binomial Model with the following parameters:

Date of grant	16th January 2015
Number of shares issuable under options granted	107,527,008
Exercise price	HK$2.2
Fair value at the date of grant	HK$0.72-HK$0.75
Risk-free interest rate based on the yields of the 5-year Exchange Fund Notes	0.88%
Expected volatility#	46%
Expected dividend yield	2.27%
Expected life	3 years to 5 years

The expected volatility is based on statistical analysis of daily share prices annualised for one year immediately preceding the grant date.

37. RETIREMENT BENEFITS SCHEME

The Group operates a MPF for all eligible employees in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs of each eligible employee to the MPF, subject to a maximum amount of HK$1,500 per month. Since 1st July 2017, the Group has made voluntary contributions to the MPF for executive Directors and senior management up to 5% of their relevant monthly income.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefits scheme to fund the benefits. The principal obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions. At the end of the reporting period, there was no forfeited contribution available to reduce the contribution payable in future years.

The total cost charged to profit or loss of approximately HK$5,855,000 *(2017: approximately HK$6,652,000)* represents contributions paid and payable to these schemes by the Group in respect of the current year.

38. RELATED PARTY TRANSACTIONS

Key management compensation

The emoluments of the Directors and other members of key management during the year are as follows:

	2018	2017
	HK$'000	HK$'000
Salaries	**10,473**	13,455
Discretionary bonus	**1,000**	5,924
Housing and other allowances	**9,798**	2,168
Retirement benefits scheme contributions	**708**	575
	21,979	22,122

39. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued and paid-up capital	Interest held
Direct subsidiaries:				
Billion State Limited	British Virgin Islands ("BVI")/ limited liability company	Trustee/Hong Kong ("HK")	100 ordinary shares of US$1 each	100%
China Hunter Limited	BVI/limited liability company	Investment/HK	100 ordinary shares of US$1 each	100%
Cloud Rich Holdings Limited	BVI/limited liability company	Investment holding/HK	100 ordinary shares of US$1 each	100%
Yuxing Group (International) Limited	BVI/limited liability company	Investment holding/the PRC and HK	2,000 ordinary shares of US$1 each	100%
Wealthy Well Limited	Cayman Islands/ limited liability company	Investment/HK	100 ordinary shares of US$1 each	100%
Golden Rich Asia Investment Limited	HK/limited liability company	Investment holding/HK	1 ordinary share of HK$1	100%
HyBroad Vision Holdings Limited	HK/limited liability company	Investment holding/HK	1 ordinary share of HK$1	100%
Noble Rich Investment Limited	HK/limited liability company	Investment holding/HK	100 ordinary shares of HK$1 each	100%
Rich Universe International Limited	HK/limited liability company	Investment/HK	100 ordinary shares of HK$1 each	100%
Indirect subsidiaries:				
Harmony Wealthy Investments Limited	BVI/limited liability company	Investment/HK	1 ordinary share of US$1	100%
Up Spacious Global Investments Limited	BVI/limited liability company	Trading of securities/HK	3 ordinary shares of US$1 each	100%
Yield Lasting Investments Limited	BVI/limited liability company	Property holding/HK	1 ordinary share of US$1	100%
RiCloud Corp.	The United States/limited liability company	IDC/the United States	100 common stock of US$0.01	100%
Cloud Digital Co., Limited	HK/limited liability company	IDC/HK	100 ordinary shares of HK$1 each	100%

39. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued and paid-up capital	Interest held
Indirect subsidiaries: *(Continued)*				
HyBroad Vision (HK) Technology Company Limited	HK/limited liability company	Trading and distribution of information home appliances and electronic components/HK	10,000,000 ordinary shares of HK$1 each	100%
Yuxing Technology Company Limited	HK/limited liability company	Trading and distribution of information home appliances and electronic components and investment holding/HK	2 ordinary shares of HK$1 each	100%
Beijing E'rich Investment Management Co., Ltd*	The PRC/domestic wholly owned enterprise	Investment consultancy/the PRC	RMB8,000,000	100%
Beijing Yuxing Software Company Limited*	The PRC/foreign wholly owned enterprise	Research and development ("R&D") and software design/the PRC	RMB10,610,850	100%
Guangdong HyBroad Vision Electronics Technology Company Limited*	The PRC/domestic equity joint venture	Manufacturing, distribution and sales of information home appliances and R&D and software design/the PRC	RMB90,000,000	100%
Lasaruida Investment Consultation Management Company Limited*	The PRC/domestic wholly owned enterprise	Investment consultancy/the PRC	RMB10,000,000	100%
Shanghai Yiding Electronic Technology Company Limited*	The PRC/foreign wholly owned enterprise	Property holding/the PRC	US$31,000,000	100%
Sheng Bang Qiang Dian Electronics (Zhongshan) Company Limited*	The PRC/foreign wholly owned enterprise	Manufacturing and sales of electronic components, plastic and miscellaneous products/the PRC	RMB123,000,000	100%
Shenzhen Shi Qian Hai Yi Zhang Wo Internet Technology Company Limited* ("Yi Zhang Wo") *(Note)*	The PRC/domestic wholly owned enterprise	R&D of software and hardware and network technology services/the PRC	RMB9,997,500	100%

Note:

The issued and paid-up capital presented above is the same as the registered capital of the subsidiaries of the Company, except for Yi Zhang Wo. The registered capital of Yi Zhang Wo is RMB13,330,000. The Group has capital commitment for the remaining registered capital of Yi Zhang Wo of RMB3,332,500 on or before 23rd September 2019.

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

Particulars of Properties

INVESTMENT PROPERTIES

Location	Usage	Tenure	Gross floor area (sq.m.)	Attributable interest of the Group
No. 1188 Xinyuan Road,Minhang District,Shanghai City,the PRC	Industrial building for rental and/or capital appreciation	Granted the land use rights of the property for a term expiring on 19th February 2057 for industrial use	54,931	100%