Sinopharm Tech Holdings Limited
國藥科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8156)

ANNUAL REPORT 2019

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*This annual report, for which the directors (the "**Directors**") of Sinopharm Tech 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, 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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The English text of this annual report shall prevail over the Chinese text for the purpose of interpretation.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan *(Chairperson)*
Mr. CHAN Ting *(Deputy Chairperson & Chief Executive Officer)*

Non-executive Directors

Mr. CHAN Tung Mei
Dr. CHENG Yanjie *(appointed on 29 July 2019)*

Independent Non-executive Directors

Mr. YANG Qing Cai
Dr. LIU Ta-pei

AUDIT COMMITTEE

Mr. YANG Qing Cai
Dr. LIU Ta-pei

REMUNERATION COMMITTEE

Mr. CHAN Ting
Mr. YANG Qing Cai
Dr. LIU Ta-pei

NOMINATION COMMITTEE

Madam CHEUNG Kwai Lan *(Chairperson)*
Mr. YANG Qing Cai
Dr. LIU Ta-pei

AUTHORISED REPRESENTATIVES

Mr. CHAN Ting
Mr. HO Kam Kin

COMPLIANCE OFFICER

Mr. CHAN Ting

COMPANY SECRETARY

Mr. HO Kam Kin

AUDITORS

CCTH CPA Limited

PRINCIPAL BANKERS

Nanyang Commercial Bank, Limited
Chong Hing Bank Limited

REGISTERED OFFICE

P.O. Box 10008, Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 307–313, 3/F, Wireless Centre
Phase One Hong Kong Science Park
Pak Shek Kok, New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Tricor Services (Cayman Islands) Limited
P. O. Box 10008, Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Standard Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

8156

COMPANY WEBSITE

www.sinopharmtech.com.hk

CHAIRPERSON'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of Sinopharm Tech Holdings Limited, I take pleasure in announcing the results of the Company and its subsidiaries for the financial year ended 30 June 2019. At the time of composing the chairperson's statement for the year under review, business environment encounters unprecedented challenges in the backdrop of local and global incidents at different levels. Nevertheless, the Group was still on the track of implementing long-term growth strategies during the year under review. Fundamental breakthrough has been attained in business structure to further establish competitive advantages to create sound business momentum. In such ever-changing environment, we should express our gratitude to our team for its hard work and contribution to the Group, partners from various sectors for their support and our Shareholders for their long-term support, which we rely on for gradually capturing different development opportunities.

EMERGING STRATEGY RESULTS AND SEIZING OPPORTUNITIES

Since our establishment, the Group has been focusing our businesses in the Mainland market for over two decades, while shifting our customer base of providing solutions from mainly domestic government authorities to enterprises. Recently, the Chinese government has gradually aimed at fostering the "Internet" measures to adapt to the needs of industry integration and upgrade. With the upcoming implementation of a series of police to foster internet development, it aims to unleash the respective innovation and effectiveness of "Internet". In the past two years, the Group has undergone a strategic transformation of the "Internet Plus" Business, which has also started growing and continued to stably develop and generate cash during the year under review. For the year ended 30 June 2019, the Group's annual revenue reached HK$43.5 million, with a year-on-year increase of 72% driven by the "double engines" of lottery and "Internet Plus" business.

The Group's upcoming business focus would be on the new Blue Ocean Strategy with full force. With value innovation and continuous new market development at appropriate times as our basis for strategic development, the Group strives to become a unique market pioneer. As such, the Group also introduced Sinopharm Traditional Chinese Medicine Co. Ltd ("**Sino-TCM**"), a leading enterprise in the comprehensive health and traditional Chinese medicine industry in China, as our strategic shareholder, with our name changed to Sinopharm Tech Holdings Limited. The Group strongly believes that under the mainstream trend of integrating health into various policies, structural adjustment of health industry and enhancement of consumption structure, "Internet Plus Health" is set to flourish. In view of this, the Group will develop our business in the health industry in the future.

Leveraging on our extensive lottery technology, "Internet Plus" technology and market acumen, the Group also entered into a strategic cooperation with Zhong Wei Hua Xin Fund Management Co., Ltd. (中維華信基金管理有限公司) and Sino-TCM for the purpose of creating smart credit convenience service stores targeting the outlets under the management of China National Tobacco Corporation (中國煙草總公司), Sino-TCM and its related companies as well as the outlets in various industries, which would provide a new and very substantial development channel with potential for the Group's lottery sales and "Internet Plus" businesses.

CHANGE OF BOARD MEMBERS

In July 2019, in order to enhance the professionalism of the Board in the pharmaceutical industry, the Company successfully invited Dr. Cheng Yanjie, the director and consultant of Sino-TCM, as a non-executive Director of the Company. With such core figure from Sino-TCM joining the Group, the Board would have more in-depth, comprehensive, professional and accurate opinions on the Group's development direction in the "Internet Plus Health" sector which would be beneficial to the Group on making insightful business decisions.

Subsequently, the Company was also informed that Mr. To Yan Ming Edmond, an independent non-executive Director of the Company, passed away in August 2019, and would like to express its deepest sorrow for his departure. The Company would also like to express its sincere appreciation to Mr. To for his valuable contribution to the Company during his tenure.

OUTLOOK

I strongly believe that the steady development of the Group's lottery and "Internet Plus" business segments and the continuous cooperation with companies having unique market resources and attractiveness will signify the Group's capability of serving as an irreplaceable core hub in the new business model for compiling and integrating the resources for different enterprises. Accordingly, the Group possesses a more comprehensive deployment in lottery and "Internet Plus" businesses while explores more unique opportunities. With years of investment and efforts made by our team, the Group is set to gradually enter the harvest stage. Again, I would like to express my gratitude to our Shareholders for their continuous support and following our latest development.

CHEUNG Kwai Lan
Chairperson and Executive Director

Hong Kong, 27 September 2019

CEO'S STATEMENT

Dear Shareholders:

The year of 2019 was year with new vitality and opportunity for the Group. The seeds of the "Internet Plus" business implemented in the past have started growing and generating revenue to the Group. The "Internet Plus Health" segment under the "Internet Plus" Business has achieved several major breakthroughs, among which, the Group acquired 100% equity interests in Hero Global Holdings Limited indirectly owned by a partner of the Group's health business, Sinopharm Traditional Chinese Medicine Co. Ltd ("**Sino-TCM**"), and further strengthened our relationship from business partner to strategic shareholder. For smart supply chain management, comprehensive healthcare solutions and other development under the "Internet Plus Health" segment, the Group, through making acquisitions and reaching strategic cooperations with many leading health industry companies, has successfully expanded our "Internet Plus Health" business, allowing the Group to rapidly grow and achieve our goals.

JOIN HANDS IN STRENGTH TO EXPLORE BLUE OCEAN

Specifically, after review period, the Company, Sino-TCM and Zhong Wei Hua Xin Fund Management Co., Ltd. ("**ZWHX**") signed a strategic cooperation framework agreement to upgrade and transform offline outlets in different industries. The "Smart Credit Convenience Service Stores" will be built to provide convenience services such as accessible medical care, convenience store, self-service lottery sales, financial services via financial technology and smart supply chain. The network outlets are proposed to include outlets under the management of China National Tobacco Corporation, financial institution outlets, outlets of Sino-TCM and its related companies, and outlets in various industries. The Company designated by Sino-TCM, is responsible for implementing the specific cooperation with institutions designated by ZWHX, for the lottery and comprehensive healthcare business solutions under the non-tobacco services of China Tobacco Business Integrated Service Platform and for the operation and maintenance during the implementation of the service platform, as well as the introduction of international healthcare products from overseas to the offline distribution channels under the China Tobacco Business Integrated Service Platform. ZWHX is mainly responsible for providing financing arrangements for equipment involved in the transformation, including but not limited to equipment leasing, coordinating with the provincial and municipal commercial entities of China Tobacco and financial institutions to implement the transformation and upgrading of "Smart Credit Convenience Service Stores" on their outlets, and exploring the online and offline promotion model to other industries. At the same time, the three parties intend to jointly establish a joint venture company or mutually invest in relevant companies in respect of the comprehensive health industry projects with specific details to be separately agreed.

Pursuant to the "Notice of the "Internet Plus" Action Plan for the Tobacco Industry" (《煙草行業「互聯網+」行動計劃的通知》) issued by the State Tobacco Monopoly Administration (國家煙草專賣局) in 2017, the establishment of the three major application platforms such as an "Internet Plus" based business service platform ("**China Tobacco Business Integrated Service Platform**"), smart supply chain platform and industry financing platform were specified, and the tobacco industry will be integrated with internet technology in an orderly manner. According to State Tobacco Monopoly Administration, there are currently over 5.2 million tobacco retail stores in China. The Group will further expand the existing lottery and health business to cover offline channels through this cooperation.

CEO'S STATEMENT

"INTERNET PLUS" BUSINESS — START GROWING AND GENERATING INCOME

The Group provided efficient and convenient "Internet Plus" solutions for different industries in the past. Agreements for two iconic projects were formally signed during the year under review and has begun generating revenue. For example, following the signing of a strategic cooperation agreement between the Group and Tencent Cloud Computing (Beijing) Co., Ltd. ("**Tencent Cloud**") in 2017, the first specific operational cooperation with Tencent Cloud to provide "Internet Plus" solution for Shenzhen Police in respect of livelihood policing projects was made in August 2018. The project is to develop a convergence media platform for the Shenzhen Police with an access from the WeChat (微信) based platform, providing the function of collection and integration of information, content production, together with distribution and promotion through different channels. The convergence media platform also provides a matrix management system for information dissemination for Shenzhen Police and all its affiliates units, as well as connecting the Shenzhen Traffic Police (SZTP) Star Users Services and related services into the People's Livelihood Policing Services Platform of Shenzhen (深圳市公安民生警務平台). By applying mobile location based service (LBS) technology, our solution aims to allow the Shenzhen Police to provide precision services and information to the general public in an efficient, manageable and multi-media manner, in which the ultimate goal is to strength the safety awareness among the general public and maintain public security. The solution has been launched and put into operation. As of December 31, 2018, the handling volume of online cases of the People's Livelihood Policing Services Platform reached 5.26 million, accounting for approximately 60% in total, which is in line with the PRC government's intention to improve efficiency through "Internet Plus" technologies. In September 2018, the Group also officially signed the project development service agreement for Shenzhen Lease Platform with Tencent Cloud. Shenzhen Lease Platform is a project authorized by Tencent Cloud to develop supervisory platform and related services of Shenzhen Lease Platform by the Group, including Shenzhen Lease Platform which integrates the self-service system, operation and supervision system, third-party interface to the Shenzhen Lease Platform, housing data filter, operation and maintenance services for Shenzhen housing rental agencies. The Housing and Construction Bureau of Shenzhen Municipality strives to construct 600,000 additional sets of various types of housing by 2022, of which no less than 300,000 sets are rental housing units, indicating that the business potential of the Shenzhen Lease Platform is increasing. Both of the above projects has begun generating revenue for the Group during the year under review.

According to "the Notice on the Announcement of the First Batch of National High-tech Enterprises in Shenzhen in 2018", a subsidiary of the Group was awarded the "High-tech Enterprise" certificate, which was issued by Science, Technology and Innovation Commission of Shenzhen municipality, the Shenzhen Finance Commission of Shenzhen municipality and Shenzhen Taxation Bureau of State Administration of Taxation in October 2018. This certification represents the further recognition from the government toward our technical development capability.

"INTERNET PLUS HEALTH" BUSINESS — STRATEGIC ACQUISITION TO UNDERPIN FOUNDATION

From the year 2017 under review, the Group has started establishing a nationwide "Internet Plus Health" online-to-offline platform with Sino-TCM in respect of "Internet Plus Health" Business, cooperating through management services (including but not limited to Internet Plus, blockchain, big data, etc). To this end, both parties jointly established a joint venture company, Sinopharm Health Cross Border E-commerce Company Limited ("**Sinopharm E-commerce**"), with the Group holding 30% of its shares and Sino-TCM holding 70% of its shares to implement the aforementioned cooperation. Sino-TCM is a member of China Traditional National Chinese Medicine Co., Ltd, taking the integration of healthcare industry as the development direction. Using the national "Belt and Road Initiative" strategy and with "green, organic, healthy and premium" as core concepts to build a comprehensive healthcare

CEO'S STATEMENT

business, as well as taking advantage of the pharmaceutical health industry, the Group has established the entire industry chain system for comprehensive health to act as the leading enterprise in comprehensive health and pharmaceutical industry for fostering the strategic implementation of "Health China" strategy.

During the year under review, in January 2019, the purchaser, a wholly-owned subsidiary of the Company, and Sinopharm Traditional Chinese Medicine Overseas Holdings Limited ("**Sino-Overseas**"), as the vendor, entered into the sale and purchase agreement (the "**Sale and Purchase Agreement**"), pursuant to which Sino-Overseas has conditionally agreed to sell, and the purchaser has conditionally agreed to acquire 100% of the equity interests in Hero Global Holdings Limited (the "**Target Company**") owned by the vendor, which owned 70% of the equity interests in Sinopharm E-commerce, for a consideration of HK$139.10 million, which will be settled by the allotment and issue of 650,000,000 new shares (the "**Consideration Shares**") by the Group to the vendor under the specific mandate at the issue price of HK$0.214 per Consideration Share. Pursuant to the Sale and Purchase Agreement, the Vendor guaranteed to the purchaser that the net profits after taxation of the Target Company ("**Net Profit**") for each of the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$23,000,000; or the aggregate Net Profit for the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$69,000,000 in total ("**Guaranteed Profit**"). If the aggregate Net Profit for the three years ending 31 December 2019, 2020 and 2021 of the Target Company is less than the Guaranteed Profit, the vendor shall compensate the purchaser the shortfall multiplied by a compensation factor of 1.7 in cash.

The acquisition of the Target Company was completed on 6 May 2019. Sino-Overseas has become a strategic investor and a substantial shareholder of the Group. This will not only help develop the potential of "Internet Plus Health" of the Group, but also allow the Group and Sino-TCM to jointly explore more business opportunities in health industry in long run.

In respect of the "Internet Plus Health" Business, Sinopharm E-commerce adopts new technical methods to assist Sino-TCM to achieve the strategy of comprehensive health industry chain and build a one-stop intelligent health platform ("**Comprehensive Health Platform**"). Pursuant to the management service agreement signed by both parties in November 2018, the Group assisted in the construction of Comprehensive Health Platform, which will take advantage of the technology of Internet Plus (including big data, cloud computing, artificial intelligence, Internet of Things and blockchain technology, etc.) to connect online users and data to offline services and products, monitor and manage service products in order to build a comprehensive health information sharing platform and form a comprehensive health community ecosystem with closed system between users and service providers. Pursuant to the management service agreement, Sino-TCM shall pay an annual service fee of RMB28,000,000, RMB29,400,000 and RMB30,870,000 respectively to Sinopharm E-commerce, depending on the delivery of service by the Group throughout the term, during the three-year agreement term.

CEO'S STATEMENT

The Comprehensive Health Platform includes the following features:

(i) using artificial intelligence and big data technology to integrate, among others, information on traditional Chinese doctors, common diseases and traditional Chinese medicines to conduct statistical analysis and management, and together with computer model, big data and machine learning to assist doctors to learn about patients' conditions so as to reduce misdiagnosis and improve healthcare quality to achieve the purpose of assisting online medical diagnosis;

(ii) through analysing large volumes of health records and results of diagnosis to provide indications for people, and provide suggestions for disease prevention and recommendations on relevant drugs and supplements as well as home delivery as part of its Online-to-Offline services;

(iii) analysing data such as consumers' spending behaviors, membership information, drug procurement activities and health indicators obtained through the interactive marketing technology to conduct big data analysis and modelling, so as to achieve precision management, services and marketing in respect of healthcare products to users and provide precise comprehensive healthcare solutions;

(iv) as for quality control of pharmaceuticals and products, building a digitalised and intelligentised tracking and tracing function based on various monitorings and sensors technologies, covering from the source of raw materials, production process, distribution of the herb plantation and manufacture products and to the sales to customers; and

(v) utilizing the Internet of things technology to identify, locate, track, monitor and manage the distribution of pharmaceuticals.

The aforesaid functions will assist Sino-TCM's comprehensive healthcare platform to provide services via offline channel and promote trackable and traceable high quality products to online users, helping users to get and keep healthy by customised medical diagnosis solutions and medication guidance and creating a matured comprehensive health community ecosystem of users and service providers.

In respect of the "Internet Plus Health" Business in the smart supply chain management of E-commerce, Sinopharm E-commerce also owns a wholly-owned subsidiary, Sinopharm (Hong Kong) Industrial Co., Ltd ("**Sinopharm Industrial**"), which specializes in the PRC e-commerce platform business and has signed a business contract with JD.com International Limited ("**Jingdong**") for cross-border e-commence and related value-added services. The Group has achieved key breakthroughs in the smart supply chain management business by cooperating with large e-commerce companies through this contract, which can help the smart supply chain management in "Internet Plus Health" gradually integrate into the "Internet Plus" upstream and downstream supply chain by cooperating with large E-commerce platforms and create a complete system. The ultimate objective is that products and services can be seamlessly delivered from online to offline users. At present, the cross-border e-commerce related services provided by the Group for Jingdong have started normal operation. The relevant business has generated revenue of HK$13,423,000 to the Group and continued to grow during the year under review. With the completion of integration among various parts of the supply chain, the business shall provide a more significant contribution to the Group.

CONNECT WITH PARTNERS FOR SYNERGY

In June 2019, a wholly-owned subsidiary of the Group and shareholders of Ever Development Holdings Limited ("**Ever Development**") entered into the sales and purchase agreement (the "**Sales and Purchase Agreement**"), pursuant to which the Group has conditionally agreed to acquire 25% of the equity interests in Ever Development from the shareholder of Ever Development, for a consideration of HK$50 million, which will be settled by the allotment and issue of 208,400,000 shares ("**Consideration Shares**") by the Company to Ever Development under the general mandate at the issue price of approximately HK$0.240 per Consideration Share. None of the relevant Consideration

CEO'S STATEMENT

Shares, upon granting to the Vendor, can be sold, transferred or the subject of any collateral within a period of six months from the date of allotment and issue thereof. Ever Development holds 100% of the equity interests in Kenford Medical Group Company Limited ("**Kenford**"), one of the largest modernized Chinese medical clinic groups in Hong Kong. Currently, Kenford operates many modernized Chinese medical clinics in Hong Kong. As of the date of publication of this annual report, the conditions precedent for the transactions under the Sales and Purchase Agreement have not been fulfilled, therefore the transaction has not been completed and the Company will provide the latest updates as soon as there is further information on the transaction.

After the year under review, the Company has signed a strategic cooperation framework agreement with Beijing Guorun Jiuhe Health Technology Co., Ltd (北京國潤九和健康科技有限公司) ("**Guorun Jiuhe**") and Kenford to strengthen the Group's ability of comprehensive health business, hoping to generate synergies and greater value through multifaceted cooperation in the future. According to the Strategic Cooperation Agreement, the Company, Guorun Jiuhe and Kenford will jointly build a comprehensive traditional Chinese body constitution health solution ("**Body Constitution Health Solution**") and an online A.I. based treatment assistant system ("**Online A.I. Treatment Assistant System**"). Body constitution care centre will be implemented through shop-in-shop model based on the health solution of body constitution under traditional Chinese medicine of Guorun Jiuhe, while the technology and sales aspects will be based on the "comprehensive health platform and Internet Plus" technology of the Group, and Kenford as professional medical distribution channel. The Group and Guorun Jiuhe simultaneously and jointly appointed Kenford to become the cooperation partner in TCM Body Constitution Health Solution in Guangdong-Hong Kong-Macao Greater Bay Area. In respect of the online medical diagnosis assistant system, the Company will cooperate with Guorun Jiuhe combining smart comprehensive healthcare platform and the expertize resources of Guorun Jiuhe, and will apply clinical experience of the experts via the artificial intelligence technology to the medical care institution at the community level to enhance their servicing ability. The term of the agreement is 5 years, for further development and when definitive cooperation is defined, the relevant party(ies) under the Cooperation Agreement will separately enter into further agreement. Guorun Jiuhe is a health technology corporation jointly invested by China Resources Life Science Industry Development Co., Ltd (華潤生命科學產業發展有限公司), an indirect wholly owned subsidiary under China Resources Company Limited (中國華潤有限公司), and Professor Wang Qi and his team through Beijing Guoyi Jiuhe Medical Technology Co., Ltd (北京國醫九和醫藥科技有限公司), on academic theory, clinical application, innovative research, industrial development and teaching enhancement, five aspects collaborating as one based on the body constitution of traditional Chinese medicine.

CHANGE OF NAME, STOCK SHORT NAME, LOGO AND WEBSITE OF THE COMPANY

In order to reflect the Company's strategic business plan and its future focus on the development of health industry more effectively, during the year under review, the name of the Company has been changed from "China Vanguard You Champion Holdings Limited" to "Sinopharm Tech Holdings Limited", and the respective resolution has been passed at the EGM held on June 2019. The stock short name of the Company has been changed from "China Vanguard" to "Sinopharm Tech". The logo of the Company has been changed to , and the website of the Company has also been changed to www.sinopharmtech.com.hk.

OUTLOOK

Looking back at 2019, the Group's lottery and "Internet Plus" businesses have achieved major breakthroughs. With the experience and resources accumulated over years and the Company's building of each solution with modular and standardized structure, our solutions can be quickly modified to suit different application scenarios for expanding into more markets. This allows us to seize every opportunity when it arises and gradually realise cash. At present, the devoted business in the past has gradually made an important contribution to the Group's revenue.

CEO'S STATEMENT

During the year under review and prior to the publication of this annual report, the Group has successfully entered into strategic cooperation with a number of major participants in different industries, including Sino-TCM, ZWHX, Guorun Jiuhe and Kenford. The next phase will be realising the strategic projects with various aforesaid partners and enter into relevant operation agreements, which will lead the Group's lottery and "Internet Plus Health" businesses into Blue Ocean markets.

As for the lottery business, the Group has signed a strategic cooperation agreement with Sino-TCM and ZWHX to upgrade and transform offline outlets in various industries with an aim to extensively set up lottery sales system targeting approximately 5.2 million outlets of tobacco stores and outlets of health industry as well as outlets of different industries for creating smart credit convenience service stores, while provides operation and maintenance related to lottery solutions in the aforementioned retail points. The Group will also further proactively seek for necessary approval and authorization from relevant regulatory or management institutions. Such act provides the Group with market pioneer opportunity, and the Group is confident that it can maintain its leading position. Therefore, the Group will continue to expand into different markets and business scopes through the above advantages based on the experience accumulated over years and our own technology, and explore lottery-related business development with higher return on top of the lottery trading system solutions. In addition, the aforementioned multifaceted strategic cooperation will also provide a new and huge offline network for the Group's comprehensive health solutions, so that the Group can gradually implement comprehensive health product solution services in accordance with strategic cooperation agreements. It is expected that the Group will gradually realize another new source of income in the future.

The "Internet Plus" Business is a major direction for the PRC in promoting reform and development in different industries, improving efficiency and providing more convenient services for different industries. During the period under review, two business cooperation agreements were signed with Tencent Cloud, and the related projects have also been successfully put into operation and generated revenue. As a preferred strategic partner of Tencent Cloud, the Group will be able to replicate our business model to more markets by relying on Tencent Cloud's support in addition to our own resources. The future development of the smart supply chain and health sectors in the "Internet Plus" business should be particularly highlighted. The Group aims to provide precise interactive marketing technology to the cross-border e-commerce companies on smart supply chain. The Group believes that cross-border e-commerce is still at initial stage and there exists significant room for development in the future. From 2013 to 2018, the average annual growth rate of cross-border e-commerce transactions reached 23%. At the same time, the State Council deliberately set up 22 comprehensive cross-border E-commerce pilot zones in 2018 to accelerate the development of cross-border e-commerce. As a Hong Kong company providing precise interactive marketing technology, the Group not only hopes to accumulate more accurate interactive marketing technology experience in the process of cross-border e-commerce development to meet the needs of cross-border e-commerce, but also provides more business opportunities to different cross-border e-commerce companies through precise interactive marketing technology. In addition, in respect of "Internet Plus Health" Business, which tags along with the direction of the PRC to promote Healthy China 2030, the Group will be able to continue using its own "Internet Plus" technology and cooperate with other leading companies in the health industry, such as Guorun Jiuhe to develop comprehensive health solutions through technology, so as to further improve the Group's future products and solutions, and form a more complete closed system on the online and offline services of the Group's comprehensive health solutions. At the same time, using our own "Internet Plus Health" technology such as "traceability to the source", relevant technology can be applied to different industries such as agriculture, thereby allowing the Group to expand its business to broader markets.

Looking back this year, we have created many new opportunities and values through acquisition and strategic cooperation. We look forward to gradually exploring the value of each business and opportunity in the future in order to bring more returns to Shareholders. I would like to take this opportunity to express my heartfelt gratitude to our customers, business partners, suppliers and shareholders. It is your encouragement that constantly pushes our team forward. I look forward to continuing to receive your feedbacks and to work with you in the future.

CHAN Ting
Duty Chairperson, Executive Director and Chief Executive Officer

Hong Kong, 27 September 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 30 June 2019, the Group recorded revenue of HK$43.5 million, representing an increase of 72% over the revenue of HK$25.3 million for the same period in 2018, while gross profit for the period of HK$23.7 million represented an increase of 51% over gross profit of HK$15.7 million in the corresponding period in 2018. Revenue substantially increased as the result of the company drive the new business on internet plus services of supply chain and recognizing "interest plus lease" services contract which contributed a significant amount of revenue to the Group. Increase in gross profit was due to the Company has taken various measures to tighten direct cost of services and the contribution from new business growth momentum.

The Group recorded a loss attributable to equity holders of HK$46.8 million for the year under review, representing a decrease of 23% over the loss attributable to the equity holders for the same period in 2018 (2018: HK$61.0 million). The major reasons for the decrease of the loss attributable to equity holders are mainly due to the net effects of new business segment contribution from Internet plus supply chain services; the Group has taken various measures to tighten cost controls; fair value gain on investment in associates; written back of consideration payable for acquisition of subsidiaries and impairment losses on assets were made for the Year 2019 as compared with the Year 2018.

SEGMENTAL INFORMATION

Lottery-related services business remains smooth during the reporting period. During the reporting period, the revenue of the Lottery-related services recorded HK$21.0 million, representing a decrease of 4% over the same period of the last financial year. The overall gross profit margin was 70% for the reporting period comparing with 57% for the same period of the last financial year. Details of further development of lottery-related services business are stated in the outlook of CEO's Statement.

Internet plus services business recorded steady growth as the result of recognizing "Interest plus lease" services contract and it commenced of Internet plus supply chain business in the 4th quarter during the reporting period. In the Internet Plus services business, the revenue of solutions services and supply chain services recorded HK$9.0 million and HK$13.4 million respectively, representing an increase of over 14 times in total revenue over the same period of the last financial year. The overall gross profit margin was 39% for the reporting period comparing with 84% for the same period of the last financial year. Details of further development of internet plus services business are stated in the outlook of CEO's Statement.

GOODWILL AND INTANGIBLE ASSETS

During the reporting period, goodwill amounting to approximately HK$65.1 million (2018: Nil) were determined to be impaired, in which approximately HK$45.9 million (2018: Nil) and HK$19.2 million (2018: Nil) were attributable to lottery related services cash generating unit and internet plus solution services cash generating unit respectively. In addition, intangible assets of approximately HK$2.8 million (2018: Nil) were determined to be impaired, in which was attributable to the Group's lottery related services contract. The recoverable amount of the cash generating units is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and a long-term average growth rate. The recoverable amount of the cash generating units was with reference to the calculations performed by an independent appraisal valuer, ROMA Appraisals Limited. Details of the relevant assumptions and impairment assessment on goodwill and intangible assets of the Group are set out in Note 20 and Note 21 to the consolidated financial statements of this annual report respectively.

The Directors considered that the goodwill attributable to the lottery related services cash generating units were impaired as the traditional lottery segment believed to reach certain market saturation, there will be business contraction on lottery business and the revenue of lottery related services will decline in the upcoming financial budgets.

The Directors considered that the goodwill attributable to the internet plus solutions services cash generating units were impaired as the budgeted revenue of the cash generating units for the acquisition of subsidiaries which took place in September 2017 will be declined as the result of some key technical staffs have left the subsidiaries. Subsequently, the Company had negotiated with the vendor who was breach certain terms on the sales and purchases agreement and signed a supplementary agreement to amend the consideration.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 30 June 2019, the Group's bank balances and cash amounted to HK$6.6 million (2018: HK$4.7 million) which were mainly held in HK$ and RMB. Current assets amounted to HK$41.3 million (2018: HK$26.7 million), mainly comprising of trade and other receivables and prepayment, bank balance and cash. Current liabilities amounted to HK$189.4 million (2018: HK$231.6 million), mainly comprising of trade payables, accruals and other payables, amount due to directors and convertible bonds. As at 30 June 2019, the gearing ratio of the Group was 39% on the basis of the Group's total interest-bearing borrowings divided by total assets (2018: 51%).

COMMITMENTS

The Group had capital commitments of HK$Nil and operating commitments as lease of HK$2.0 million from operations as at 30 June 2019 (30 June 2018: capital commitments of HK$11.1 million and operating lease commitments of HK$2.0 million respectively).

FOREIGN EXCHANGE EXPOSURE

The Group mainly generates revenue and incurs expenses in Hong Kong dollars, U.S. dollars and Renminbi ("**RMB**"). The management is aware of the possible exchange rate exposure resulted from the fluctuation of RMB against the Hong Kong dollars and will closely monitor its impact on the performance of the Group to determine if any hedging policy is necessary. With regard to the U.S. dollars, foreign exchange exposure would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the U.S. dollars remains in effect.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

The Group had no contingent liabilities as at 30 June 2019 (30 June 2018: Nil). No assets of the Group was pledged as securities to any third parties as at 30 June 2019 (30 June 2018: Nil).

CAPITAL STRUCTURE

During the reporting period, the capital structure of the Group consisted of cash and cash equivalents and equity attributable to holders of the Company, comprising issued share capital and reserves. As at 30 June 2019, the total number of issued share capital of the Company was 4,108,855,068 Shares.

On 22 January 2019, the Company allotted and issued a total of 168,000,000 fully paid new Shares by way of placing at a price of HK$0.238 per Share under general mandate.

On 10 May 2019, the Company allotted and issued a total of 650,000,000 consideration shares at the issue price of HK$0.214 per consideration share under specific mandate.

CONVERTIBLE BONDS

On 17 January 2014, the Company issued unlisted convertible bonds due on 17 January 2017 with a principal amount of HK$89,625,000 at a rate of 2% per annum (the "**CBs**") as general working capital and for repayment of borrowings. A maximum number of 37,500,000 shares would be issued by the Company upon full conversion of the CBs at the conversion price of HK$2.39 per share into full-paid ordinary shares of the Company. As a result of Share Subdivision, the number of Shares fallings to be issued upon full conversion of the CBs was adjusted to 150,000,000 at the conversion price of HK$0.598 per Share.

On 18 January 2017, the Company entered into first amendment agreement with the bondholder to amend some principal terms of the CBs. The maturity date of the CBs was extended for six months from 17 January 2017 to 17 July 2017, and further extended maturity date upon a written consent from the bondholder shall be 17 January 2018. Its conversion price was amended from HK$0.598 to HK$0.359 per conversion share (subject to adjustment), which can be converted into the maximum number of 249,651,810 Shares. The interest rates of the CBs shall be increased to 8% per annum and paid semi-annually (the "**Amendments**"). Save for the Amendments, all other terms and conditions of the CBs shall remain unchanged. The Amendments were passed as an ordinary resolution by the Shareholders at the extraordinary general meeting of the Company held on 29 March 2017. On 18 July 2017, the Company received a written consent from the bondholder, of which the maturity date of the CBs would be extended for the further six months to 17 January 2018.

On 18 January 2018, the Company entered into second amendment agreement with the bondholder to extend the maturity date of the CBs from 17 January 2018 to 17 July 2018, and further extended maturity date upon a written consent from the bondholder shall be 17 January 2019 (the "**Second Amendment**"). The Second Amendment was passed as an ordinary resolution by the Shareholders at the extraordinary general meeting of the Company held on 18 April 2018. The Company has received a written consent from the bondholder, of which the maturity date of the CBs would be extended for the further six months to 17 January 2019.

On 17 January 2019, the Company entered into third amendment agreement with the bondholder to extend the maturity date of the CBs from 17 January 2019 to 17 July 2019, and further extended maturity date upon a written consent from the bondholder shall be 17 January 2020 (the "**Third Amendment**"). The Third Amendment was passed as an ordinary resolution by the Shareholders at the extraordinary general meeting of the Company held on 19 March 2019. The Company has received a written consent from the bondholder, of which the maturity date of the CBs would be extended for the further six months to 17 January 2019.

As a result of the adjustments of the CBs on 10 May 2019 upon the allotment and issue of the consideration shares to Sinopharm Traditional Chinese Medicine Overseas Holdings Limited, a maximum number of 263,602,941 shares of the Company shall be allotted and issued to the bondholder upon conversion of the CBs in full. The adjusted conversion price is HK$0.34 per conversion share subject to further adjustment.

As at 30 June 2019, no CBs have been converted into Shares by the bondholder or redeemed by the Company.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year 2019, the Group carried out the acquisitions of subsidiary and associate as follows:

Discloseable Transaction in relation to the Acquisition of the Target Company involving the Issue of Consideration Shares under Specific Mandate

On 4 January 2019, China Vanguard Corporate Management Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company, and Sinopharm Traditional Chinese Medicine Overseas Holdings Limited as vendor (the "**Vendor**") entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**"), pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the sale shares in Hero Global Holdings Limited (the "**Target Company**") (the "**Sale Shares**"), which represents 100% of the equity interest in the Target Company, for a consideration of HK$139.10 million, which will be settled by the allotment and issue of 650,000,000 ordinary shares of HK$0.0125 each in the share capital of the Company (the "**Consideration Share(s)**") by the Company to the Vendor under the specific mandate at the issue price of HK$0.214 per Consideration Share.

Pursuant to the Sale and Purchase Agreement, the Vendor guaranteed to the Purchaser that (i) the actual net profit after taxation of the Target Company (the "**Net Profit**") for each of the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$23,000,000, HK$23,000,000 and HK$23,000,000, respectively; or (ii) the aggregate Net Profit for the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$69,000,000 in total (the "**Guaranteed Profit**"). If the aggregate Net Profit for the three years ending 31 December 2019, 2020 and 2021 is less than the Guaranteed Profit, the Vendor shall compensate the Purchaser the shortfall multiplied by a compensation factor of 1.7 in cash. The Vendor shall settle the compensation amount, if any, within 30 business days following the issue of written confirmation in respect of the shortfall by the Purchaser on or before 30 June 2022 with reference to the respective Net Profits for each of the three years as mentioned above.

The Consideration Shares, upon the allotment and issue, are subject to lock-up arrangement and held by the Purchaser in accordance with the terms and conditions of the Sale and Purchase Agreement. The Consideration Shares shall be released from the lock-up arrangement upon satisfaction of the Guaranteed Profit by the Target Company. For the avoidance of doubt, the lock-up period of the Consideration Shares shall not be less than three years since the allotment and issue thereof. In the event that the aggregate Net Profit does not meet the Guaranteed Profit, the Consideration Shares will be released from the lock-up arrangement only after the cash compensation is made by the Vendor to the Purchaser in accordance with the Sale and Purchase Agreement. In the event that the Vendor fails to compensate the Purchaser in accordance with the Sale and Purchase Agreement, the Purchaser shall have the right to sell the locked-up Consideration Shares in return for such compensation amount in cash.

All the conditions precedent under the Sale and Purchase Agreement have been fulfilled, and the completion of the sale and purchase of the Sale Shares took place on 6 May 2019. On 10 May 2019, an aggregate of 650,000,000 Consideration Shares was allotted and issued to Sinopharm Traditional Chinese Medicine Overseas Holdings Limited at the issue price of HK$0.214 per Consideration Share under the specific mandate granted by the shareholders of the Company at the extraordinary general meeting of the Company, in accordance with the Sale and Purchase Agreement.

Details for the above transaction were published in the Company's announcements dated 4 January 2019, 18 April 2019, 6 May 2019 and 10 May 2019 and the circular dated 2 April 2019.

Discloseable Transaction in relation to the Acquisition of the Target Company involving the Issue of Consideration Shares under General Mandate

On 5 June 2019, China Vanguard Corporate Management Limited (the "**Purchaser II**"), a wholly-owned subsidiary of the Company, and Ms. Choi Man Yun, Marian ("**Ms. Choi**"), Ms. Kong Lai Ying ("**Ms. Kong**"), Mr. Lau Chi Wing James ("**Mr. Lau**") and Mr. Cheung Wan Yu ("**Mr. Cheung**") (collectively the "**Vendors II**") were proposed to enter into a sale and purchase agreement (the "**Sale and Purchase Agreement II**") pursuant to which the Vendors II have conditionally agreed to sell, and the Purchaser II has conditionally agreed to acquire, the sale shares in Ever Development Holdings Limited (the "**Target Company II**") (the "**Sale Shares II**"), which represents 25% of the equity interests in the Target Company II, for a consideration of HK$50 million, which will be settled by the allotment and issue of 208,400,000 ordinary shares of HK$0.0125 each in the share capital of the Company (the "**Consideration Share(s) II**") by the Company to the Vendors II under the general mandate at the issue price of approximately HK$0.240 per Consideration Share II (the "**Acquisition II**") within 30 trading days following the Completion II. The Vendors II undertake to the Company that, none of the Consideration Shares II, upon the allotment and issue to the Vendors II, can be sold, transferred or the subject of any collateral within a period of six months from the date of allotment and issue thereof in accordance with the terms and conditions of the Sale and Purchase Agreement II.

Details for the above transaction were published in the Company's announcement dated 5 June 2019. Up to the date of this annual report, the condition precedents for completion of Acquisition II have not been fully fulfilled. Therefore, the transactions contemplated under Sales and Purchase Agreement II may or may not proceed.

Save as disclosed above, the Group did not make any significant investment or material acquisition or disposal of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Directors currently do not have any future plans for material investments or capital assets. The management will continue to monitor the industry and review its business expansion plans regularly, so as to take necessary measures in the Group's best interests.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had 59 (2018: 118) employees in Hong Kong and the PRC, including the Directors. Total staff cost excluding the Directors' remuneration for the year under review amounted to approximately HK$17 million (2018: HK$36 million).

Employees' remunerations are determined with reference to their performance, qualifications, experience, positions and the current trend. Apart from the basic salary and participation in the mandatory provident fund scheme and staff benefits including medical and training programs, share options may be granted to individual employees based on performance evaluation in order to provide incentives and rewards.

CHANGE OF COMPANY NAME

By a special resolution passed at the extraordinary general meeting of the Company held on 11 June 2019, the English name of the Company has been changed from "China Vanguard You Champion Holdings Limited" to "Sinopharm Tech Holdings Limited" and the dual foreign name in Chinese has been changed from "眾彩羽翔股份有限公司" to "國藥科技股份有限公司". The change of company name became effective on 13 June 2019.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

The profiles of the Directors and senior management as at the date of this annual report are as follows:

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 81, one of the founders of the Group, is the Chairperson and Executive Director of the Company. She is also the Chairperson of the Nomination Committee of the Company. She has served the Group for more than 19 years and is the director of various subsidiaries of the Group. Madam CHEUNG is responsible for corporate development and strategic planning of the Group. Madam CHEUNG graduated from Shanxi Taiyuan Medical School in 1960 and was a researcher at Shanxi Province Taiyuan (Atomic Energy) Research Institute (山西省太原（原子能）研究所), which was one of the institutions of the Chinese Academy of Science. She also participated in the research and development of the radioactive material Cobalt 60 for imaging and cancer treatment. Madam CHEUNG has been engaged in commercial development in Hong Kong for almost 40 years.

Madam CHEUNG takes a keen interest in social welfare and charity works. She is currently the chairperson of Zhang Xueliang Foundation, permanent honorary chairperson of the World of Chinese & Overseas Chinese Peace Promote Association, director of the China Legal Aid Foundation under the Ministry of Justice, vice chairperson of the "Chinese Charitable Work Development Association" (中國公益事業發展聯合會), and honorary director of "Chinese Si Hai Tong Xin Association in Taiwan" (台灣中華四海同心會). Madam CHEUNG attended the 2nd conference of the 11th National Committee of the Chinese People's Political Consultative Conference as an overseas compatriot by special invitation. She has also been awarded as "China Philanthropy Outstanding Contribution Individual", "Most Influential Entrepreneur in China", "International Philanthropic Celebrity", "International Philanthropic Stars" and "Progeny of the PRC for the 60 Years Development of New China".

Madam CHEUNG is the mother of Ms. CHAN Siu Sarah and Mr. CHAN Ting, and is the spouse of Mr. CHAN Tung Mei, being the Group General Counsel, Executive Director and Non-executive Director of the Company respectively.

Mr. CHAN Ting, aged 49, is the Deputy Chairperson, Executive Director, Chief Executive Officer, Compliance Officer and Authorised Representative of the Company. He is also a member of the Remuneration Committee of the Company. He has served the Group for more than 18 years and is the director of various subsidiaries of the Group. He is responsible for the marketing, business development, strategic planning and operations of the Group. He was awarded a bachelor's degree in Economics from Macquarie University in Australia in 1993. He is the Vice President of the Zhang Xueliang Foundation. Mr. CHAN has over 24 years of working experience in establishing and managing companies in the PRC.

Mr. CHAN is the son of Madam CHEUNG Kwai Lan and Mr. CHAN Tung Mei, the Chairperson and Executive Director, and Non-executive Director respectively, and the brother of Ms. CHAN Siu Sarah, the Group General Counsel. He joined the Group in July 2001.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. CHAN Tung Mei, aged 83, is one of the founders of the Group and a Non-executive Director of the Company. Mr. CHAN has served the Group for more than 19 years and is the director of various subsidiaries of the Group. He graduated from Shanxi Industrial University (now known as Shanxi Taiyuan University of Technology) in the PRC and has received a bachelor's degree in Civil Engineering in August 1960. Mr. CHAN has over 22 years of experience in establishing and managing companies.

Mr. CHAN is the father of Ms. CHAN Siu Sarah and Mr. CHAN Ting and the spouse of Madam CHEUNG Kwai Lan, the Group General Counsel and Executive Directors of the Company respectively.

Dr. CHENG Yanjie, aged 55, is a Non-executive Director of the Company. Being a practicing Chinese medicine practitioner, he holds Bachelor degree of Traditional Chinese Medicine of Changchun University of Chinese Medicine (長春中醫學院中醫系學士學位), Master of Neurology of the Affiliated Hospital of Changchun University of Chinese Medicine (長春中醫學院附屬醫院神經內科碩士學位) and Doctor of Neurology of Beijing University of Chinese Medicine Dongzhimen Hospital (北京中醫藥大學東直門醫院神經內科博士學位). He previously served as Resident Neurologist of the Affiliated Hospital of Changchun University of Chinese Medicine (長春中醫學院附屬醫院神經內科住院醫師), Attending Physician of China Medical Center in Kuwait (科威特國中國醫療中心主治醫師), Neurology attending physician of Beijing University of Chinese Medicine Dongzhimen Hospital (北京中醫藥大學東直門醫院神經內科主治醫師) and worked in the R&D department of China National Pharmaceutical Group Co., Ltd. (中國藥材集團公司). He serves as committee member of China Pharmaceutical Culture Society (中國藥文化協會理事), executive director of Beijing Chaoyang District Chinese Medicine Association (北京市朝陽區中醫協會常務理事) and expert speaker of knowledge base popularization and bilingual health lecture of Beijing Chaoyang District (北京市朝陽區中醫科普及雙語養生講座專家). Dr. CHENG is currently the Chief Physician of Chinese medicine clinic of Beijing Luxiancaotang (北京鹿銜草堂中醫診所主任醫師). He currently serves as director and consultant of Sinopharm Traditional Chinese Medicine Co. Ltd (國藥藥材股份有限公司) and a director of Bencao Lihua Investment Management Co., Ltd. (本草利華投資管理有限公司). As at the date of this annual report, Sinopharm Traditional Chinese Medicine Co. Ltd wholly owned the equity interest in Sinopharm Traditional Chinese Medicine Overseas Holdings Limited which was a substantial shareholder of the Company. He held 5% of the equity interest in Bencao Lihua Investment Management Co., Ltd. (本草利華投資管理有限公司) which is one of the shareholders of Sinopharm Traditional Chinese Medicine Co. Ltd.

Independent Non-executive Directors

Dr. LIU Ta-pei, aged 68, is an Independent Non-executive Director of the Company. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company respectively. He graduated from National Chung-Hsing University in Taiwan. After graduation, he continued his studies in National Cheng-Chi University, Taiwan and the University of Southern California, U.S.A. and obtained Master of Science and MBA degrees respectively. He was then conferred his Doctoral degree in public administration from the University of La Verne, U.S.A, and the Doctoral degree in Finance from Shanghai University of Finance and Economics. Apart from his strong educational background, Dr. LIU has been active in the financial field for more than 22 years. Dr. LIU is currently the executive director of Huisheng International Holdings Limited, which is listed on the Main Board of the Stock Exchange (Stock code: 1340). He was previously the director of Mega Financial Holdings Company Limited ("**Mega Financial Holdings**"), which is listed on the Taiwan Stock Exchange Corporation (Stock code: 2886.TW) and also served as the chairman of Mega Securities Co., Ltd, a subsidiary of Mega Financial Holdings. He had also been the director of Global Securities Finance Corporation, Chung Hsing Bills Finance Corporation, and Central Investment Holding Company, and the chairman of Jen Hwa Investment Holding Company. Dr. LIU had served China Development Industrial Bank, one of the top management of Taiwan's largest Investment Banks. He also had been the chief executive officer and an executive director of the Core Pacific-Yamaichi Group in Hong Kong. Dr. LIU was ranked as one of the 'Top Ten Intelligent Financial Personnel in Greater China' and he was conferred the 'Best Integrity Award' in 2008. He was also granted the honour of "Golden Peak Award of Outstanding Corporation Leaders in Taiwan" in 1998. Dr. LIU is currently a member of Hong Kong Economic Development Commission. He joined the Group in February 2017.

Mr. YANG Qing Cai, aged 72, is an Independent Non-executive Director of the Company. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. YANG was formerly the Vice Governor of Jilin Province. He has also served as the Deputy Director of the Rural Affairs Department of the Jilin Provincial Committee, the Deputy Secretary General of the Government of Jilin Province, and the Vice Director of the Standing Committee of the National People's Congress of Jilin Province. He joined the Group in April 2011.

SENIOR MANAGEMENT

Mr. HO Kam Kin, aged 42, is the Group Chief Financial Officer, Company Secretary and Authorised Representative of the Company. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He obtained a Bachelor of Arts Degree in Accountancy and Master Degree of Corporate Finance from The Hong Kong Polytechnic University. Mr. HO held senior accounting positions in a number of companies listed on the Stock Exchange and worked in an international accounting firm for three years. He has over 17 years of experience in accounting and financial management. Prior to joining the Company, he was the financial controller and company secretary of a company listed on the Main Board of the Stock Exchange. Mr. HO joined the Group in September 2016.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. CHAN Siu Sarah, aged 54, is the General Counsel of the Group and the director of various subsidiaries of the Group. From 2010 to 30 June 2016, she has been in charge of the business activities of 深圳市博眾信息技術有限公司 (Shenzhen Bozone IT Co., Limited), the Group's main subsidiary for its traditional lottery business. She is in charge of upkeep of relationship with social welfare lottery centres. Ms. CHAN obtained her law degree from the London School of Economics and Political Science and is qualified to practice law as solicitor in Hong Kong and England and Wales. She did her solicitor's training with the international firm, Baker & McKenzie, in Hong Kong and, after qualification, worked at the international firm, Linklaters, in Hong Kong specializing in projects and project finance with a particular focus on China. She then became a corporate counsel with the Asia Pacific regional headquarter of Lucent Technologies in Hong Kong attending to legal matters in the region and later was appointed to be the regional general counsel for the Asia Pacific region of Avon Products Inc., leading its legal, government and regulatory affair teams in the region. Ms. CHAN was an executive director of Avon Products Co., Ltd. which was listed on the JASDAQ Securities Exchange, Inc. for the period from March 2006 to December 2007. She joined the Group in May 2008 as Executive Director and General Counsel. Ms. CHAN resigned as an Executive Director of the Company on 30 July 2013 and has remained as General Counsel of the Group and has continued to be in charge of social welfare lottery related business of the Group.

Ms. CHAN is the daughter of Madam CHEUNG Kwai Lan and Mr. CHAN Tung Mei, the Chairperson and Executive Director and Non-executive Director of the Company respectively, and the sister of Mr. CHAN Ting, the Deputy Chairperson, Chief Executive Officer and Executive Director of the Company.

Mr. FUNG King Him Daniel, aged 49, is the Director of Group Corporate Strategy, Investor Relations, and the director of various subsidiaries of the Group. He has been responsible for corporate strategy and investor relations of the Group. Mr. FUNG has obtained a bachelor's degree from the University of Wisconsin in the United States of America with double majors in Mathematics and Computer Science. He previously worked in Lehman Brothers Asia Limited, HSBC Asset Management Limited and Platinum Securities Company Limited. Mr. FUNG was an executive director of Celebrate International Holdings Limited, which was formerly known as Aptus Holdings Limited and a non-wholly owned subsidiary of the Group from 27 August 2004 to 30 December 2010. He joined the Group in February 2002.

Ms. KWOK Shuk Yi, aged 43, is the Director of Group Human Resources and Administration and the director of a subsidiary of the Group. She holds a bachelor's degree in Human Resources Management from The Royal Melbourne Institute of Technology University in Australia and graduated with Distinction. She has over 18 years of experience in human resources and administration management. Prior to joining the Group, she worked in human resources and administrative managerial positions with a listed company and a sizeable investment company. She has been responsible for human resources and administration management of the Group. She also extended the scope of management to the Information Technology Department in Hong Kong head office in recent years. She joined the Group in July 2008.

Ms. LI Ying, aged 38, is the General Manager of 深圳市博眾資訊技術有限公司 (Shenzhen Bozone IT Co. Limited) which is a main subsidiary of the Group in China. She is mainly responsible for the daily operation and management of the company and its affiliate companies. She also provides support on the operation of the Group's lottery business in different regions in China which include product planning, market development, overall operation and management, etc. Ms. LI has obtained a bachelor's degree from Hunan University in Computer Application and Wuhan University in Marketing Management and is studying Executive Master of Business Administration. She has over 13 years of extensive experience in lottery technology system, system maintenance, market expansion, project management, relation with regulatory institutions and team management. She has previously served senior positions in 永恒樂彩科技公司, 思樂網絡技術公司, 穗彩技術公司 and 恒朋科技公司. She joined the Group in October 2015.

CORPORATE GOVERNANCE REPORT

The Board is committed to maintain and achieve a high standard of corporate governance practices with an emphasis on a quality Board, an effective accountability system and a healthy corporate culture in order to safeguard the interests of the Shareholders and enhance the business growth of the Group.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted and complied with the applicable code provisions as set out in Appendix 15 of the GEM Listing Rules (the "**CG Code**") during the year ended 30 June 2019, except for the following deviations which are summarized below:

Code Provision A.4.1

The independent non-executive directors of the Company (the "**INED(s)**") were not appointed under specific terms but are subject to retirement by rotation in annual general meetings of the Company at least once every three years in accordance with the Articles of Association. The Company does not consider that fixed terms on the Directors' services are appropriate given that the Directors ought to be committed to representing the long term interests of the Shareholders. The retirement and re-election requirements of the INEDs have given the rights to the Shareholders to approve the continuation of the INEDs' offices.

The corporate governance practices of the Company will be reviewed and updated from time to time in order to comply with the GEM Listing Rules requirements when the Board considers appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct (the "**Code of Conduct**") regarding Directors' securities transaction in respect of the Shares. Having made specific enquiries, the Company has confirmed with all the Directors that they have complied with the required standards as set out in the Code of Conduct throughout the year ended 30 June 2019.

BOARD OF DIRECTORS

Board Composition

The composition of the Board during the year and up to the date of this annual report is as follows:

Executive Directors

Madam CHEUNG Kwai Lan *(Chairperson)*
Mr. CHAN Ting *(Deputy Chairperson and Chief Executive Officer)*

Non-executive Directors

Mr. CHAN Tung Mei
Dr. CHENG Yanjie *(appointed on 29 July 2019)*

Independent Non-executive Directors

Mr. TO Yan Ming Edmond *(passed away on 28 August 2019)*
Mr. YANG Qing Cai
Dr. LIU Ta-pei

The biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management". The relationships (including financial, business, family or other material or relevant relationships) among members of the Board are also disclosed therein.

Responsibility of the Board

The Board is responsible for the leadership and control of, and promoting the success of the Group. Apart from its statutory and fiduciary responsibilities, the Board is responsible for reviewing the financial performance of the Group and approving and monitoring the Group's strategic plans, major investments, risk managements and internal control policies. The Board is also responsible for monitoring managerial performance achieving return for the Shareholders each year.

The Board is also responsible for supervising the management of the Group (the "**Management**") and has delegated the responsibility for daily operations and management of the Group's businesses to the Management but material transactions such as acquisitions and disposals of assets of the Group are required the approval by the Board. The Management, led by the chief executive officer of the Company and comprising a team of senior managers who have extensive experience and expertise in different areas, is responsible for managing the day-to-day operations, implementing the strategies set by the Board, and assisting the Board in formulating and implementing corporate strategies.

Independent Non-executive Directors

During the year ended 30 June 2019, the Company had three INEDs and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise under Rule 5.05 of the GEM Listing Rules. Following the passing away of Mr. TO Yan Ming Edmond on 28 August 2019, the INED, the Company had only two INEDs since 28 August 2019. The Company is endeavouring to identify suitable candidate to fill the vacancies as soon as practicable, with the relevant appointment(s) to be made within three months from the date of the passing away of Mr. TO as required under Rules 5.06(1), 5.33 and 5.36 of the GEM Listing Rules. The Company has received from each INED an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the INEDs to be independent.

Each INED is required to inform the Company as soon as practicable if there is any change that may affect his/her independence.

Directors' Appointment and Re-election

All the executive Directors and one non-executive Director have entered into a service contract with the Company with effect from the date of appointment and will continue thereafter unless and until terminated by either party by giving not less than six months' notice in writing served by either party on the other. All INEDs and one non-executive Director have not entered into any service contracts with the Company but are subject to retirement by rotation and re-election in accordance with the Articles of Association.

Continuous Professional Development

The Company provides the Directors with regular updates on the business development of the Group. The Directors are regularly briefed in the latest development regarding the GEM Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. The Company also recommends them to attend relevant seminars to develop and refresh their knowledge and skills. All Directors are requested to provide the Company with their respective training records pursuant to the CG Code. During the year, all the Directors have participated in appropriate continuous professional development activities either by attending external seminars or by reading material relevant to the Company's business or to the Directors' duties and responsibilities.

Director's and Officer's Liability Insurance

The Company has arranged appropriate insurance coverage in respect of legal action against the Directors and senior management of the Group in the course of execution of their duties in good faith. The insurance coverage is reviewed on an annual basis.

Board Meetings, General Meetings and Board Committees Meetings

The Company conducts scheduled Board meetings on a quarterly basis to discuss strategies and business issues, including financial performance of the Group. The Board would meet more frequently as and when required.

The attendance of individual members of the Board at Board meetings, meetings of the Board committees, annual general meeting and extraordinary general meetings during the year ended 30 June 2019, as well as the number of such meetings held, are set out as follows:

	Meetings Attended/Held					
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**	**Extraordinary General Meeting**
Number of Meeting	7	5	1	1	1	3
Executive Directors						
Madam CHEUNG Kwai Lan	7/7	N/A	N/A	1/1	1/1	3/3
Mr. CHAN Ting	7/7	N/A	1/1	N/A	1/1	3/3
Non-executive Director						
Mr. CHAN Tung Mei	7/7	N/A	N/A	N/A	1/1	3/3
Dr. CHENG Yanjie *(appointed on 29 July 2019)*	N/A	N/A	N/A	N/A	N/A	N/A
Independents Non-executive Directors						
Mr. TO Yan Ming Edmond *(passed away on 28 August 2019)*	7/7	5/5	1/1	N/A	1/1	3/3
Mr. YANG Qing Cai	7/7	5/5	1/1	1/1	1/1	3/3
Dr. LIU Ta-pei	7/7	5/5	1/1	1/1	1/1	3/3

All Directors have access to relevant and timely information at all times as the Management will supply the Board and the Board committees with all relevant information in a timely manner. They may make further enquiries if in their opinion it is necessary or appropriate to request for further information. They also have unrestricted access to the advice and services of the company secretary of the Company (the "**Company Secretary**"), who is responsible to the Board for providing the Directors with Board papers and related materials, and ensuring that all Board procedures and all applicable rules and regulations are followed. If the Directors considered to be necessary and appropriate, they may upon reasonable request seek independent professional advice at the Company's expense.

Except for those circumstances permitted by the Articles of Association and the GEM Listing Rules, when a Director who has a material interest in any transaction, arrangement, contract or any other kind of proposal put forward to the Board for consideration, he or she shall abstain from voting on the relevant resolution.

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

In compliance with code provision A.2.1 of the CG Code, the Company has arranged for the roles of chairperson and chief executive officer to be separate and not performed by the same individual. Madam CHEUNG Kwai Lan, as the chairperson of the Company is responsible for overseeing the functions of the Board and formulating the overall strategies and policies of the Company. Mr. CHAN Ting, as chief executive officer of the Company is responsible for the day-to-day management of the business of the Group, implementing major strategies, making day-to-day decisions and the overall coordination of business operations.

BOARD COMMITTEES

The Board has maintained three board committees (the "**Board Committees**"), namely the audit committee, the remuneration committee and the nomination committee, throughout the year to oversee particular aspects of the Group's affairs. Each committee has specific terms of reference clearly defining its powers, duties and responsibilities. The terms of reference of the Board Committees are published on the websites of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Board Committees have adopted the applicable practices and procedures used in Board meetings in conducting their respective meetings.

Audit Committee

During the year ended 30 June 2019, the audit committee of the Company (the "**Audit Committee**") comprised three INEDs, namely, Mr. TO Yan Ming Edmond, Mr. YANG Qing Cai and Dr. LIU Ta-pei. Mr. TO was appointed as the chairperson of the Audit Committee. Following the passing away of Mr. TO on 28 August 2019, there has been a vacancy in the position of the chairperson of the Audit Committee since 28 August 2019. The major duties and functions of the Audit Committee are (i) to review the financial information of the Company; (ii) to review the accounting policies, financial position and results, financial reporting system, and risk management and internal control systems of the Group; (iii) to oversee the relationship between the Company and the external auditors and (iv) to provide recommendations and advices to the Board on the appointment, re-appointment and removal of external auditors as well as their term of appointment. During the year ended 30 June 2019, the Audit Committee held five meetings (i) to discuss the financial reporting and the compliance procedures with the external auditors; (ii) to consider the re-appointment of auditors of the Company; and (iii) to review the audited annual results and unaudited quarterly and interim results. Individual attendance of Audit Committee members are set out on page 22 of this annual report.

The Group's audited consolidated results for the year ended 30 June 2019 has been reviewed by the Audit Committee.

Remuneration Committee

During the year ended 30 June 2019, the remuneration committee of the Company (the "**Remuneration Committee**") comprised four members, a majority of them being INEDs, namely Mr. TO Yan Ming Edmond, Mr. CHAN Ting, Mr. YANG Qing Cai and Dr. LIU Ta-pei. Mr. TO was appointed as the chairperson of the Remuneration Committee. Following the passing away of Mr. TO on 28 August 2019, there has been a vacancy in the position of the chairperson of the Remuneration Committee since 28 August 2019. The major duties of the Remuneration Committee include assisting the Board to develop and administer fair and transparent procedures for setting policies on the remuneration of the Directors and senior management of the Company and making recommendations to the Board on the remuneration packages of the Directors and senior management of the Company. During the year ended 30 June 2019, one meeting was held by the Remuneration Committee. At the meeting, the Remuneration Committee has performed its duties to make recommendations to the Board on the remuneration packages of the Directors. Individual attendance of Remuneration Committee members are set out on page 22 of this annual report.

Annual Emoluments Payable to Members of the Senior Management by Band

The annual emolument of the members of the senior management by band for the year ended 30 June 2019 is as follows:

Emoluments Band	No. of Individuals
HK$6,000,001 — HK$6,500,000	1
HK$3,000,001 — HK$3,500,000	1
HK$1,500,001 — HK$2,000,000	—
HK$1,000,001 — HK$1,500,000	3
HK$500,001 — HK$1,000,000	3
Nil — HK$500,000	—
Total:	8

Nomination Committee

The nomination committee of the Company (the "**Nomination Committee**") comprises three members, namely Madam CHEUNG Kwai Lan, Mr. YANG Qing Cai and Dr. LIU Ta-pei. Madam CHEUNG was appointed as the Chairperson of the Nomination Committee. The major roles and functions of the Nomination Committee include reviewing the structure, size, composition and diversity of the Board at least once a year; making recommendations to the Board on the appointment and re-appointment of the Directors and succession planning of the Directors; and assessing the independence of the INEDs. During the year ended 30 June 2019, one meeting was held by the Nomination Committee. In the meeting, the Nomination Committee has performed its duties to review the structure, size, composition and diversity of the Board, make recommendations to the Board on the appointment and reappointment of the Directors and review the independence of the INEDs. Individual attendance of Nomination Committee members are set out on page 22 of this annual report.

Board Diversity Policy

The Nomination Committee has adopted the board diversity policy. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In designing the Board's composition, the Board diversity has been considered from a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The Company also takes into account these factors based on its own business model and specific needs from time to time and the ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Nomination Policy

The Nomination Committee has adopted the nomination policy. The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from the Board members (if any), for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by the Board members. The Nomination Committee shall make recommendations of the candidates for the Board's consideration and approval. For proposing candidates to stand for re-election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

The factors used as reference by the Nomination Committee in assessing the suitability of a proposed candidate would include (i) reputation for integrity; (ii) qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy; (iii) willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments; (iv) diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, professional experience, skills, knowledge and length of service; (v) independence requirements (for nomination of INEDs only) pursuant to Rule 5.09 of the GEM Listing Rules; and (vi) such other perspectives appropriate to the Company's business.

Corporate Governance Function

The Company has not established a corporate governance committee. With the leadership of the chairperson of the Company and assistance from the chief executive officer of the Company, the Board commits to promote corporate governance which serves as a vital element of risk management throughout the growth and expansion of the Company.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility to prepare the financial statements for each financial period which give a true and fair view of the financial affairs of the Group. The Directors also ensure that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting standards on a going concern basis. The Board ensures that the publication of the financial statements of the Group is in a timely manner. The Directors have also made judgments and estimates that are prudent and reasonable in the preparation of the consolidated financial statements.

A statement by the external auditors about their reporting responsibility is set out in the section headed "Independent Auditors' Report".

Risk Management and Internal Controls

The Board complied with the code provisions on risk management and internal control as set out in the CG code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group with the support of the Audit Committee. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding the Company's assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. A year-end review of the effectiveness of the Group's risk management and internal control systems has been conducted annually. Such review covered the financial, operational and compliance controls of the significant subsidiaries of the Group and included the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions, and their training programmes and budget. The Company has an internal audit function to carry out analysis and independent appraisal of the adequacy and effectiveness of the systems. The systems were considered to be effective and adequate.

The internal audit function also has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Employees of the Group are prohibited from using inside information for their own benefit. The Board is also vested with the responsibility to disseminate to the Shareholders and the public any inside information in the form of announcements and circulars in accordance with the GEM Listing Rules.

AUDITORS' REMUNERATION

The Company reviews the appointment of external auditor on an annual basis including a review of the audit scope and approval of the audit fee. During the year, the fee paid/payable to the Company's external auditor for audit services amounted to HK$730,000.

COMPANY SECRETARY

Mr. HO Kam Kin ("**Mr. HO**") was appointed as the Company Secretary with effect from 1 September 2016, and is currently the group chief financial officer and authorised representative of the Company. The biographical details of Mr. HO are set out in the section headed "Profile of Directors and Senior Management".

The appointment and dismissal of the company secretary of the Company were approved by the Board via a physical Board meeting. During the year ended 30 June 2019, Mr. HO has complied with Rule 5.15 of the GEM Listing Rules for taking no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Right to Convene an Extraordinary General Meeting (the "**EGM**")

In accordance with Article 72 of the Articles of Association, any two 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 meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

Right to Direct Enquiries to the Board

The Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary by addressing them to the principal place of business of the Company in Hong Kong at: Units 307–313, 3/F, Wireless Centre, Phase One Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong. The Shareholders may also make enquiries with the Board at the general meetings of the Company.

Right to Put Forward Proposals at a General Meeting

The Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group. The Shareholders are requested to follow Article 72 of the Articles of Association for including a resolution at the EGM. The requirement and procedures are set out in paragraph headed "Right to Convene an Extraordinary General Meeting (the "**EGM**")" above.

INVESTORS RELATIONS

The Company has established a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include the annual general meeting; the annual, interim and quarterly reports, notices, announcements, circulars, memorandum and articles of association and media release on the Company's website at www.sinopharmtech.com.hk.

CONSTITUTIONAL DOCUMENT

There was no change in the constitutional documents during the year.

DIRECTORS' REPORT

The Directors are pleased to present the annual report together with the audited consolidated financial statements for the year ended 30 June 2019.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATION

The principal activity of the Company is investment holding and the activities of the subsidiaries are set out in Note 45 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 30 June 2019 by segments is set out in Note 9 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year is set out in the sections of Chairperson's Statement, CEO's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report, Five-Year Financial Summary and the paragraphs below.

The Group complies with the requirements under the Companies Ordinance, the GEM Listing Rules and the Securities and Futures Ordinance for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. The Group also complies with the relevant PRC laws and regulations relating to its business and operations. No important event affecting the Group has occurred since the end of the financial year under review.

Principal Risks and Uncertainties of the Group

During the year under review, the Group was facing the following risks and uncertainties in our business: i) Lottery Industry Trends and regulations: The industry trends in lottery business in PRC will directly affect the Group's operation. The decline in the sales of lottery market, uncertainties in the implantation lottery sales through online channels and implementation of any additional regulations and measures by the relevant authorities could have adversely impact on the Group's business, operation and financial results. ii) Service agreement renewal: The Group signed the service agreement with provincial lottery centers and other customers based on the fixed terms of period. The Group had maintained sound relationship with our customers and business partners to render the reliable lottery related services and internet plus services in order to secure and renew the relevant services agreement. But the renewal of the relevant services agreement is not guarantee, the lottery centers require to perform the tender process after the end of services period. In case of such services agreement will not be renewed, it will have adversely impact on the Group's business and operation. iii) New business development: the Group has opened up new business development on "Internet Plus" in order to explore more business opportunities for the Group. The Group observed that it is a growing market and the business is less susceptible to policy and regulatory changes. However, the operating results of that new business have been materially affected by the industry trends and future development.

Key Relationships with Employees, Customers and Suppliers

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The Group's requirements and standards are well communicated to suppliers before the commencement of a project.

DIRECTORS' REPORT

The Group values the views and opinions of all customers through various means and channels to understand customer trends and needs. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2019, sales to the five largest customers accounted for approximately 96% of its entire sales to five customers and sales to the largest customer accounted for approximately 31%. Purchases from the Group's five largest suppliers accounted for approximately 94% of the total purchases for the year and purchases from the largest supplier accounted for approximately 63%.

None of the Directors, or any of their close associates or any Shareholders, which to the best knowledge of the Directors own more than 5% of the Company's issued share capital, had any beneficial interest in these major customers and suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for year ended 30 June 2019 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on pages 49 and 50.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 30 June 2019 (2018: Nil).

Dividend Policy

The Board has adopted a dividend policy. Any distribution of dividends shall be in accordance with the applicable laws and the relevant provisions of Articles of Association effective from time to time. The Company may declare and distribute final dividends, interim dividends or special dividends as may be determined by the Board from time to time. Declaration of final dividend is subject to the approval of the Shareholders. The Company may distribute dividends by way of cash or Shares. Profit distribution of the Company shall take into account: (i) the earnings per share of the Company; (ii) the reasonable return in investment of the investors and the Shareholders in order to provide incentive to them to continue to support the Company in their long-term development; (iii) the financial conditions and business plan of the Company; and (iv) the market sentiment and circumstances.

FIVE-YEAR FINANCIAL SUMMARY

A summary of results and of the assets and liabilities of the Group for the past five financial years is set out on page 149 of this annual report.

RESERVES

Details of movements in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on pages 53 and 54.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 19 to the Consolidated Financial Statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$Nil (2018: HK$Nil).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

SUFFICIENCY OF PUBLIC FLOAT

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

RELATED PARTY TRANSACTION

Details of the significant related party transactions which also constituted exempted connected transactions under Chapter 20 of the GEM Listing Rules are set out to Note 44 to the consolidated financial statements of this annual report.

CONNECTED TRANSACTION

On 17 January 2019, the Company entered into an amendment agreement (the "**Third Amendment Agreement**") with Integrated Asset Management (Asia) Limited (the "**Bondholder**") to amend certain terms and conditions of the convertible bonds issued to the Bondholder on 17 January 2014 with a principal amount of HK$89,625,000, amended interest rate of 8% per annum and amended conversion price of HK$0.359 per conversion share subject to adjustment (the "**CBs**"). A maximum number of 249,651,810 Shares would be allotted and issued to the Bondholder upon conversion of the CBs in full.

Pursuant to the Third Amendment Agreement, the Company and the Bondholder agreed to extend the maturity date of the CBs from 17 January 2019 to 17 July 2019, and further extended maturity date upon a written consent from the bondholder to 17 January 2020 (the "**Third Amendment**"). The Third Amendment was passed as an ordinary resolution by the Shareholders at the extraordinary general meeting of the Company held on 19 March 2019. The Company has received a written consent from the bondholder, of which the maturity date of the CBs would be extended for a further six months to 17 January 2019.

As the Bondholder is a substantial Shareholder of the Company, it constituted a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Details of this connected transaction were disclosed in the announcement and the circular of the Company dated 17 January 2019 and 1 March 2019 respectively.

As a result of the adjustments of the CBs on 10 May 2019 upon the allotment and issue of the consideration shares to Sinopharm Traditional Chinese Medicine Overseas Holdings Limited, a maximum number of 263,602,941 shares of the Company shall be allotted and issued to the bondholder upon conversion of the CBs in full. The adjusted conversion price is HK$0.34 per conversion share subject to further adjustment. Details of these adjustments were disclosed in the announcement of the Company dated 10 May 2019.

As at 30 June 2019, no CBs have been converted into Shares by the Bondholder or redeemed by the Company.

CONTINUING CONNECTED TRANSACTION PURSUANT TO RULE 20.58 OF THE GEM LISTING RULES

On 12 November 2018, Sinopharm Health Cross Border E-Commerce Company Limited ("**Sinopharm Health**"), a non-wholly-owned subsidiary of Hero Global Holdings Limited (英雄環球控股有限公司) ("**Hero Global**"), and Sinopharm Traditional Chinese Medicine Co. Ltd. (國藥藥材股份有限公司) ("**Sino-TCM**") entered into a management service agreement (the "**Management Service Agreement**") pursuant to which Sinopharm Health shall provide business management and consulting services to Sino-TCM. The transactions contemplated under the Management Service Agreement would continue upon completion of the acquisition of the 100% equity interest in Hero Global pursuant to a sale and purchase agreement by the purchaser, China Vanguard Corporate Management Limited, a wholly-owned subsidiary of the Company, from Sinopharm Traditional Chinese Medicine Overseas Holdings Limited (國藥藥材海外控股有限公司) (the "**Vendor**") in May 2019.

Upon completion of the above acquisition, Sinopharm Health became a wholly-owned subsidiary of the Company. The Vendor was wholly-owned by Sino-TCM and the Vendor, upon completion of the above acquisition and the allotment and issue of the consideration shares, became a substantial shareholder of the Company. As such, the Vendor and Sino-TCM were each a connected person of the Company upon completion of the above acquisition. The continuing transactions under the Management Service Agreement became continuing connected transactions of the Company (the "**CCT**") under Chapter 20 of the GEM Listing Rules.

Pursuant to the Management Service Agreement, Sinopharm Health will provide business management and Internet Plus solutions tailored for the business needs of Sino-TCM, in particular the development of the platform. The Company considered that the transactions with Sino-TCM under the Management Service Agreement would generate a stable source of income to the Group while at the same time enable Sinopharm Health to expand its business of Internet Plus Health and cross-border e-commerce.

The term of the Management Service Agreement is three years commencing from 12 November 2018, being the date of the Management Service Agreement, and ending on 11 November 2021, which is renewable for a further term of three years as mutually agreed by the parties subject to the terms and conditions of the Management Service Agreement.

Sino-TCM shall pay an annual service fee in the sum of RMB28 million to Sinopharm Health for the services provided by Sinopharm Health under the Management Service Agreement, which shall be settled within 60 business days following the end date of the preceding financial year. The service fee payable by Sino-TCM under the Management Service Agreement is subject to a 5% year-on-year increment during the term thereof. Details of the CCT were disclosed in the announcement of the Company dated 4 January 2019.

For the year ended 30 June 2019, the independent non-executive directors of the Company has reviewed the CCT and confirmed that the Management Service Agreement has been entered into in the ordinary and usual course of business of the Group, on normal commercial terms and on terms that are fair and reasonable and in the interests of the Shareholders as a whole. A letter from the auditors has been received by the Board confirming that none of the matters mentioned under Rule 20.54 of the GEM Listing Rules arose regarding the CCT for the year ended 30 June 2019.

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

Save as disclosed in this annual report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares during the year.

PLACING OF NEW SHARES

On 22 January 2019, the Company allotted and issued a total of 168,000,000 fully paid new Shares by way of placing (the "**Placing**") to one placee, namely Mr. TSE Siu Hoi at a price of HK$0.238 per Share under general mandate. The Directors believed that the Placing represented an opportunity to raise capital for the Company while broadening its Shareholder and capital base. It also signified the confidence of the placee in the potential of the Company and demonstrated their willingness to support the Company. The Directors are of the view that the Placing would strengthen the financial position of the Group and provide working capital to the Group to meet any future development and obligations. The aggregate nominal value of the maximum number of the Placing Shares under the Placing was HK$2,100,000. The net price per Placing Share after deduction of the Placing commission and other related expenses was approximately HK$0.235. The closing price per Share as quoted on the Stock Exchange on the date of the Placing agreement was HK$0.260. For details, please refer to the announcement of the Company dated 7 January 2019.

The net proceeds of approximately HK$39.5 million from the Placing was intended to be used for the general working capital of the Group and HK$37.3 million was utilised as intended. As at the date of this annual report, the remaining unutilised proceeds of approximately HK$2.2 million is intended to be utilised for the same as working capital of the Group as disclosed in the announcement of the Company dated 7 January 2019.

DIRECTORS

The Directors during the year and up to the date of this annual report comprised:

Executive Directors

Madam CHEUNG Kwai Lan
Mr. CHAN Ting

Non-executive Directors

Mr. CHAN Tung Mei
Dr. CHENG Yanjie *(appointed on 29 July 2019)*

Independent Non-executive Directors

Mr. TO Yan Ming Edmond *(passed away on 28 August 2019)*
Mr. YANG Qing Cai
Dr. LIU Ta-pei

In accordance with Article 99 of the Articles of Association, Dr. CHENG Yanjie shall hold office only until the next following annual general meeting of the Company (in the case of an addition to their number) and will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company (the "**AGM**").

In accordance with Article 116 of the Articles of Association, Mr. CHAN Ting will retire from office by rotation and, being eligible, offer himself for re-election at the AGM while Mr. YANG Qing Cai will retire from office by rotation and will not offer himself for re-election at the AGM.

The Company has received from each of the INEDs, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the INEDs to be independent.

DIRECTORS' REPORT

UPDATE ON DIRECTORS' INFORMATION PURSUANT TO RULE 17.50A OF THE GEM LISTING RULES

In accordance with Rule 17.50A(1) of the GEM Listing Rules, there was no change in information of the Directors required to be disclosed for the year ended 30 June 2019.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director, auditors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur or about the execution and discharge of his duties or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

DIRECTORS' SERVICE CONTRACTS

All the executive Directors and one non-executive Director have entered into a renewable service agreement for a period of three years with the Company and are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles of Association.

All the INEDs and one non-executive Director have not entered into any service contracts with the Company but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles of Association.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance 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.

COMPETING INTERESTS

None of Directors, the substantial shareholders or the controlling shareholder of the Company or any of their respective close associates (as defined under the GEM Listing Rules) have any interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2019, the interests and short positions of the Directors and chief executive in the ordinary share(s) of HK$0.0125 each of the Company (the "**Share(s)**"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long Positions in the Shares of the Company or Any of its Associated Corporation

Name of Directors	The Company/ Name of Associated Corporation	Number of Shares Held: Interest in Controlled Corporation	Personal Interest	Family Interest	Total Interest	Approximate Percentage of Shareholding
Madam CHEUNG Kwai Lan ("**Madam CHEUNG**") *(Note)*	The Company	675,565,856	4,656,000	3,020,000	683,241,856	16.63%
Mr. CHAN Tung Mei ("**Mr. CHAN**") *(Note)*	The Company	—	3,020,000	680,221,856	683,241,856	16.63%
Madam CHEUNG	Best Frontier Investments Limited ("**Best Frontier**") *(Note)*	—	909	1	910	—
Mr. CHAN	Best Frontier	—	1	909	910	—
Mr. YANG Qing Cai	The Company	—	475,000	—	475,000	0.01%

Note:

675,565,856 Shares were owned by Best Frontier which was owned as to 99.89% and 0.11% by Madam CHEUNG and Mr. CHAN respectively. In addition, Madam CHEUNG and Mr. CHAN directly held 4,656,000 Shares and 3,020,000 Shares respectively. Accordingly, Madam CHEUNG is the spouse of Mr. CHAN and so both of them were deemed to be interested in the Shares.

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in any Shares, debentures or underlying Shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURE

Save as disclosed in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation" above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of acquisition of the Shares in, or debentures of, the Company or any body corporate, and none of the Directors and chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDINGS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2019, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as is known to any Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, as follows:

Long Positions in the Shares

Name of Shareholders	Capacity	Number of issued Shares Held	Approximate Percentage of the Shareholding
Best Frontier & its concert parties *(Note 1)*	Beneficial Owner	683,241,856	16.63%
Sinopharm Traditional Chinese Medicine Overseas Holdings Limited	Beneficial Owner	650,000,000	15.82%
Integrated Asset Management (Asia) Limited ("**Integrated Asset**") & its concert parties *(Note 2)*	Beneficial Owner	460,633,000	11.21%
Tse Siu Hoi	Beneficial Owner	308,650,000	7.51%

Notes:

1. The 675,565,856 Shares were owned by Best Frontier which was owned as to 99.89% and 0.11% by Madam CHEUNG and Mr. CHAN who are spouses to each other. In addition, Madam CHEUNG and Mr. CHAN directly held 4,656,000 and 3,020,000 Shares respectively. Madam CHEUNG is the spouse of Mr. CHAN and so both of them were deemed to be interested in the Shares.

2. The 460,633,000 Shares were owned by Integrated Asset which was wholly-owned by Mr. YAM Tak Cheung. 8% coupon convertible bonds in aggregate amount of HK$89,625,000 (the "**CBs**") for a term of six months were issued to Integrated Asset pursuant to the first amendment agreement dated 18 January 2017 approved by the Shareholders at the extraordinary general meeting of the Company held on 29 March 2017. The Company received a written consent from Integrated Asset, on which the maturity date of the CBs would be extended for further six months to 17 January 2018. A maximum number of 249,651,810 Shares would be allotted and issued to Integrated Asset upon conversion of the CBs in full. The amended conversion price is HK$0.359 per conversion share subject to adjustment.

   Pursuant to the second amendment agreement approved by the Shareholders at the extraordinary general meeting of the Company held on 18 April 2018, the amendments were that the maturity date of the CBs was extended for six months from 17 January 2018 to 17 July 2018, and further extended maturity date upon a prior written consent from Integrated Asset would be 17 January 2019. Such written consent from Integrated Asset has been received by the Company. A maximum number of 249,651,810 Shares would be allotted and issued to Integrated Asset upon conversion of the CBs in full.

   An ordinary resolution was passed at the extraordinary general meeting of the Company held on 19 March 2019 in which pursuant to the third amendment agreement, the amendments are that the maturity date of the CBs shall be extended for six months from 17 January 2019 to 17 July 2019, and further extended to 17 January 2020 upon a prior written consent from Integrated Asset. Such written consent from Integrated Asset has been received by the Company. A maximum number of 249,651,810 Shares shall be allotted and issued to Integrated Asset upon conversion of the CBs in full.

DIRECTORS' REPORT

As a result of the adjustments of the CBs on 10 May 2019 upon the allotment and issue of the consideration shares to Sinopharm Traditional Chinese Medicine Overseas Holdings Limited, a maximum number of 263,602,941 Shares shall be allotted and issued to Integrated Asset upon conversion of the CBs in full and thereafter the shareholding of Integrated Asset will be increased to approximately 17.63% of the existing issued share capital of the Company and approximately 16.56% of the enlarged issued share capital of the Company. The adjusted conversion price is HK$0.34 per conversion share subject to further adjustment.

Save as disclosed above, as at 30 June 2019, the Directors or chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which was recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 31 January 2013 (the "**Share Option Scheme**") under which the Board may, at its discretion, invite eligible persons to take up share options to subscribe for the Shares in the Company. Eligible persons shall include any Directors, employees and consultants of the Company or of any subsidiary of the Company or such other persons whom at the sole discretion of the Board are deemed to have contributed to the Group at the time when an option is granted to such person. The Share Option Scheme will remain valid for a period of 10 years commencing from the date of adoption of the Share Option Scheme. 92,806,507 Shares are available for issue under the Share Option Scheme, representing 2.26% of the issued Shares as at the date of this annual report. Details of the Share Option Scheme adopted by the Company are set out in Note 35 to the Consolidated Financial Statements.

The details of the movements in share options under the Share Option Scheme during the year were as follows:-

				Number of Share Options					
Name/ Category of Participants	**Grant Date**	**Exercise Price**	**Exercisable Period**	**As at 1 July 2018**	**Granted**	**Exercised**	**Cancelled**	**Lapsed**	**As at 30 June 2019**
Other eligible participants *(Note)*	21/07/2015	1.280	01/07/2016–30/06/2019	10,000,000	—	—	—	(10,000,000)	—
	21/07/2015	1.280	01/07/2017–30/06/2019	10,000,000	—	—	—	(10,000,000)	—
			Total	**20,000,000**	**—**	**—**	**—**	**(20,000,000)**	**—**

Note:

Other eligible participants include certain business partners and consultants of the Group.

AUDITORS

The consolidated financial statements for the year ended 30 June 2017 have been audited by Sky Base Partners CPA Limited ("**Sky Base**") and the consolidated financial statements for the years ended 30 June 2018 and 30 June 2019 have been audited by CCTH CPA Limited. Sky Base has resigned as the auditors of the Group with effect from 24 July 2018 and CCTH CPA Limited has been appointed as the auditors of the Group to fill the casual vacancy created by the resignation of Sky Base with effect from 24 July 2018. CCTH CPA Limited will retire at the forthcoming annual general meeting of the Company and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of CCTH CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance which is set out in the "Corporate Governance Report" on pages 20 to 27.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules. During the year ended 30 June 2019, the Audit Committee comprised three INEDs, Mr. TO Yan Ming Edmond, Mr. YANG Qing Cai and Dr. LIU Ta-pei. The chairperson of the Audit Committee was Mr. TO Yan Ming Edmond. Following the passing away of Mr. TO on 28 August 2019, there has been a vacancy in the position of the chairperson of the Audit Committee since 28 August 2019. Details of the role and work performed by the Audit Committee are set out in "Corporate Governance Report" in this annual report for the year ended 30 June 2019.

The audited consolidated results of the Group for the year ended 30 June 2019 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

EVENTS AFTER REPORTING PERIOD

There has been no important event affecting the Group since the end of the financial year ended 30 June 2019.

On behalf of the Board

CHEUNG Kwai Lan
Chairperson and Executive Director

Hong Kong, 27 September 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance Report (the "**ESG Report**") issued by the Company covers the policies and compliance issues relating to the environmental and social aspects of the head office in Hong Kong and its business in PRC and key performance indicators in the environmental aspect during the year ended 30 June 2019. This ESG Report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" as set out in Appendix 20 of the GEM Listing Rules.

ENVIRONMENT

Emissions

The Group aims to minimize energy consumption and any adverse impact on the environment during the Group's operation to provide lottery-related services and internet plus solution services. Due to the nature of our business, there is no significant direct impact on the environment during our operation. Therefore, the Group's main emissions is the consumption of electricity, paper, gas and water which is mainly attributable by ways of the lighting system, printing paper, uses of corporate vehicles and air- conditioning in office. The Group performed regular assessments on the Group's air and greenhouse gas emissions, as well as the generation and disposal of hazardous and non-hazardous waste. During the reporting period, the Group was not aware of any material non-compliance with the environmental laws and regulations.

Key Performance Indicators

1. *Air Pollutants*

Fuel consumption by motor vehicles was the major source of nitrogen oxides ("**NO_x**"), sulphur oxides ("**SO_x**") and particulate matter ("**PM**") emissions. Relevant data for the year ended 30 June 2019 and 2018 were as follows:

	Year ended 30 June 2019 (g)	Year ended 30 June 2018 (g)
NO_x	**7,219.68**	8,147.53
SO_x	**157.07**	174.00
PM	**531.57**	599.89

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. *Greenhouse Gas Emissions*

Greenhouse gas came from all sorts of daily activities, such as the use of electricity, water and gas as well as the combustion of fuels in motor vehicles. Total greenhouse gas emissions included carbon dioxide ("**CO_2**") and other greenhouse gases, such as methane ("**CH_4**") and nitrous oxide ("**N_2O**"). The Group strives to reduce burning and improve energy and resource use efficiency in its daily operation so as to manage its greenhouse gas emissions.

The combustion of fuels in motor vehicles caused the direct emission of greenhouse gasses. Relevant data for the year ended 30 June 2019 and 2018 were as follows:

	Year ended 30 June 2019 (kg)	Year ended 30 June 2018 (kg)
CO_2	**25,217.05**	27,934.14
CH_4	**56.77**	62.89
N_2O	**3,660.21**	5,122.83

The electricity consumption of the Company which mainly came from the daily operations of the offices causes the indirect emission of greenhouse gas of CO_2. Indirect CO_2 emission from electricity purchased from power companies was 31,404.84kg for the year ended 30 June 2019 (2018: 136,354.81kg).

3. *Hazardous Waste Production*

According to the National Catalogue of Hazardous Wastes《(國家危險廢物名錄》) which was formulated in accordance with Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes《(中華人民共和國固體廢物污染環境防治法》) by the Ministry of Environmental Protection of the People's Republic of China (中華人民共和國環境保護部), printing ink is classified as hazardous waste.

Despite that the hazardous waste data during the year was unavailable to the Group (2018: 0.006 tonnes per printer; intensity: 0.003), the Group considered only limited hazardous waste was produced during printing processes.

4. *Non-Hazardous Waste Production*

Despite that the non-hazardous waste data during the year was unavailable to the Group (2018: not available), the Group considered only limited non-hazardous waste was produced during printing processes.

The Group is wholly committed to the policies relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste as set out in this ESG Report in the annual report in order to mitigate such pollution.

Use of Resources

To support environmental protection, the Group tries its best endeavours to minimize the energy and resources consumption during the daily operation of the Group in Hong Kong and PRC offices. The Group strives to build an environmental-friendly working environment through our guidance and policies and participation among the staff to minimize the adverse impact on electricity and office consumables consumption.

In order to reduce the consumption of electricity in office, the Group issues guidance to the staff for setting the optimal temperature on the air-conditioning, all the lights and electronic appliances in office will be turned off when not in use and all the lights in office will be turned off during the lunch time.

Further, in order to reduce the consumables consumption in office, the Group encourages all the staffs to save and file the documents electronically, use the recycled paper for printing and print the documents on double-sided and arrange the telephone or video conferences instead of face-to-face meetings.

Key Performance Indicators

1. *Energy and Water Consumption*

   During the year, the energy and water consumption in the lottery-related business and internet plus solution business were unavailable (2018: not available) as the data was a lump sum and cannot be separated among different business segments.

2. *Total packaging material used for finished products*

   The Group believed that there was no significant packaging material used for finished products for the year ended 30 June 2019 (2018: not significant).

The Group is wholly committed to the policies on the efficient use of resources as set out in this ESG Report in the annual report in order to reduce the consumption of energy and water.

Environment and Natural Resources

Due to the nature of our business, the Group does not generate substantial industrial pollutions or hazardous waste. The Group did not have any material non-compliance issues in respect of any applicable laws and regulations on environmental protection relating to air, greenhouse gas emissions, discharges into water and land, generation of hazardous and nonhazardous waste.

Key Performance Indicators

The daily operation of the Group does not have material impact on the environment and natural resources. The Group will continue to be wholly committed to the policies on minimising its significant impact on the environment and natural resources as set out in this ESG Report in the annual report in order to protect the environment and natural resources.

EMPLOYMENT AND LABOUR PRACTICES

Employment

The Group believes that human resources are the most valuable asset and core competitive strength of the Group. The Group adopts a fair and open recruitment policy to avoid any discrimination on age, gender, race, nationality, religion or marital status. All the candidates will be assessed under the fair recruitment process.

The resting time of the Group's employees is well respected and the employees are also entitled to paid holidays pursuant to statutory requirements or otherwise under their respective employment contracts. There is a computerized human resources management system in place to continuously monitor the working hours and leave application of the employees. The Group also adopts zero tolerance policy towards sexual harassment at the workplace to protect its employees from unsolicited sexual advances.

The Group rewards all the employees by providing a competitive remuneration package and performs the performance appraisal on annual basis with appropriate bonus, promotion opportunities for career advancement. Staff handbook will be delivered to all employees for stating all the information regarding employment, business conduct, social security funds, compensation, leave benefits, working hours, etc. A brief orientation is provided to new employees to ensure that they are aware of all relevant polices. During the reporting period, the Group was not aware of any material non-compliance with all relevant labour and employment laws.

Health and Safety

The Group has been committed to provide a safe, pleasant and healthy working environment to the employees in order to protect their health and safety. In order to maintain a safe and comfortable working environment, the Group designs and plan office layouts based on relevant safety provisions, ensures that fire escapes are available and the hygiene of the office is regularly maintained. During the reporting period, the Group reviewed the office environment and safety policies regularly and was not aware of any material non-compliance with the health and safety laws and regulations.

Development and Training

Staffs continuous development is one of crucial success of the Group. The Group provides on-board trainings and orientation for the new coming staffs. Also, the Group encourages the employees to attend the external applicable training courses or seminars during the office hours which are relevant to the job duties. The employees are entitled to the examination leaves when they attend the external examination which applicable to their job duties on the examination day. The Group strives to ensure that all employees can fulfill the relevant job requirements in terms of education, training, technical and work experience.

Labour Standards

During the recruitment process, the Group strictly complies with all applicable laws and regulations in the place where it operates. The Group ascertains that its employees are all above the minimum legal working age requirement and have been fully protected in terms of labour standards. The Group complied with all laws and regulations prohibiting child labour and forced labour. Applicant is also required to provide document proofs of academic qualifications and working experience for verifications, applicant who is suspected to have false academic qualifications and working experience will not be employed. All the staffs were employed in accordance with the relevant laws and regulations in Hong Kong and PRC and the management regularly reviews the recruitment process to ensure that no discrimination is present.

OPERATING PRACTICES

Supply Chain Management

The Group believes that sourcing and selection of suppliers play a crucial part in establishing our product and brand. The Group assesses on supplier with the relevant industrial and environmental standards in supply of materials, and to consider that it is one of the supplier selection criteria. During the procurement process, the Group performs regular assessments on the environmental and social risks of the supply chain management.

Product Responsibilities

The Group has responsibilities on its product or services provided. The Group encourages employees to maintain high standards of product or services provided and are obligated to retain confidence and all information obtained in connection with their employment.

Anti-corruption

All of the Group's operations comply with the legislation on standards of conduct, such as Criminal Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, and the Prevention of Bribery Ordinance in Hong Kong. The Group has established a corporate culture of integrity and justice, and adopted the clear guidelines for employees which strictly prohibit bribery, extortion, fraud, money laundering and other acts. The Group has also implemented the whistleblowing policy for encouraging the staff to report to the Board if there is any money laundering, bribery and irregularities.

COMMUNITY

Community Investment

The Group believes in contributing to the society as part of our mission in order to create a more peaceful community. Therefore, the Group encourages our staffs to participate in any activities which are benefit to our communities. The Group targets through donations, sponsorships and charity work by supporting any activities which can help charitable, cultural, medical, educational and other needs in our community. The Group will consider to support or donate any charitable organizations from time to time where appropriate.

INDEPENDENT AUDITORS' REPORT

CCTH CPA LIMITED
中正天恆會計師有限公司

TO THE SHAREHOLDERS OF SINOPHARM TECH HOLDINGS LIMITED
(formerly known as CHINA VANGUARD YOU CHAMPION HOLDINGS LIMITED)
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sinopharm Tech Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 49 to 148, which comprise the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements regarding the adoption of going concern basis on which the consolidated financial statements have been prepared. The Group sustained net current liabilities amounted to approximately HK$148,086,000 as at 30 June 2019 and the Group incurred a loss of approximately HK$45,626,000 for the year then ended. These conditions, along with other matters as set out in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Group and the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that would result from a failure to obtain the funding as referred to in Note 2 for financing the working capital and financial commitments of the Group and the Company for the foreseeable future. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Impairment assessment on trade receivables and other receivables

Refer to notes 25 and 26 to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
As at 30 June 2019, the Group had trade receivables and other receivables, net of provision for doubtful receivables, amounted to HK$19,975,000 and HK$10,182,000 respectively. Assessment of impairment provision for these receivables involves management's judgment of the ability of the debtors to make settlement which depends on customers' specific and market conditions that are inherently uncertain. We have identified impairment assessment on trade receivables and other receivables as a key audit matter due to the magnitude of the receivables and the estimation and judgments involved in the determination of the recoverable amounts of these receivables.	Our procedures in relation to management's impairment assessment on trade receivables and other receivables included: (a) We obtained an understanding of the design, implementation and operating effectiveness of management's internal controls relating to credit control, debt collection and making provisions for doubtful debts. (b) We assessed the classification and accuracy of individual balances in ageing reports of trade receivables and other receivables by testing the underlying invoices and/or agreement on a sample basis. (c) We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgments about the recoverability of the outstanding receivables and evaluate the provision for doubtful debts made by management for these individual balances. (d) We assessed the historical accuracy of the estimates made by the management for the provision for doubtful debts. (e) We assessed the appropriateness of the expected credit loss positioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit loss.

INDEPENDENT AUDITORS' REPORT

Impairment of goodwill and intangible assets

Refer to notes 20 and 21 to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
As at 30 June 2019, the Group had goodwill and intangible assets, net of impairment losses recognised, of approximately HK$177,554,000 and HK$8,253,000 respectively. We focused on the impairment assessment of the goodwill and the intangible assets as a key audit matter due to the magnitude of each of the goodwill and the intangible assets and management's assessment of the value in use of the relevant cash-generating units (CGUs) which involves judgments and estimates about the future results of the related business, key assumptions including revenue growth rate and gross profit margin, long-term growth rate and the discount rates applied to future cash flow forecast.	Our procedures in relation to impairment assessment of the goodwill and intangible assets included: (a) We evaluated and challenged the composition of the Group's future cash flow forecast in each CGU, and the process by which they were drawn up, including testing the underlying value in use calculation. (b) We assessed the reasonableness of key assumptions such as revenue growth, future profitability and discount rates with reference to the business and industry circumstances. (c) We reconciled input data to supporting evidence, such as approved forecasts of future profits. (d) We considered the reasonableness of these forecasts of future profits by comparing them against past results achieved. (e) We considered the adequacy of the disclosure of impairment assessments of the goodwill and intangible assets set out in the consolidated financial statements.

Business combination

Refer to note 36 to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
During the year, the Group acquired 100% equity interest in Hero Global Holdings Limited ("**Hero Global**"). In determining the fair value of the assets and liabilities of Hero Global and its subsidiaries acquired, management reviewed in details the nature of such assets and liabilities and the basis of estimating their fair value. In addition, 30% equity interest of a subsidiary of Hero Global, Sinopharm Health Cross border E-commerce Company Limited was held by the Group before the acquisition. Upon completion, the equity interest of the Group in Sinopharm Health increased from 30% to 100%. The excess of the fair value of 30% equity interest of Sinopharm Health at the date of acquisition as valued by an independent valuer, over the carrying amount, amounted to HK$17,375,000, was recognised in profit or loss in respect of the year and included in other income and gains (note 11 to the consolidated financial statements). We focused this business combination as a key audit matter because accounting for acquisition requires the identification and valuation of tangible and intangible assets, the allocation of purchase consideration to the assets and liabilities acquired and the valuation of fair value of 30% equity interest in Sinopharm Health at the date of acquisition which involves a number of judgments and assumptions.	Our procedures in relation to the recognition of the business combination included: (a) We considered and challenged management's assessment of the appropriate accounting treatment, the identification and valuation of tangible and intangible assets and the allocation of purchase price to the assets and liabilities acquired. (b) Where management has relied on the external valuation for the fair value of the 30% equity interest held by the Group at the date of acquisition, we assessed the competency of the valuers and tested the results of their work. (c) We have also considered the adequacy of the Group's disclosure in respect of the acquisition set out in the consolidated financial statements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report, but does not include the consolidated financial statements and our auditors' 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.

INDEPENDENT AUDITORS' REPORT

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 is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS — continued

- 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 auditors' 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 auditors' 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.

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 auditors' 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.

CCTH CPA Limited
Certified Public Accountants
Hong Kong 27 September 2019

Ng Kam Fai
Practising certificate number P06573

Unit 5–6, 7/F., Greenfield Tower, Concordia Plaza
1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Notes	**Year ended 30-6-2019 HK$'000**	Year ended 30-6-2018 HK$'000
Revenue	*10*	**43,503**	25,347
Cost of sales and services		**(19,802)**	(9,642)
Gross profit		**23,701**	15,705
Other income and gains	*11*	**66,269**	13,951
Provision for doubtful receivables		**(213)**	(8,797)
Impairment loss on assets	*12*	**(67,930)**	—
Selling and distribution expenses		**—**	(1,409)
Administrative and operating expenses		**(57,815)**	(80,268)
Finance costs	*13*	**(11,950)**	(12,581)
Loss before tax	*14*	**(47,938)**	(73,399)
Income tax credit	*16*	**2,312**	1,814
Loss for the year		**(45,626)**	(71,585)
(Loss)/profit for the year attributable to:			
Equity holders of the Company		**(46,796)**	(61,034)
Non-controlling interests		**1,170**	(10,551)
		(45,626)	(71,585)
Loss for the year		**(45,626)**	(71,585)
Other comprehensive income/(expenses) for the year, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of overseas operations		**2,130**	(87)
Total comprehensive expenses for the year		**(43,496)**	(71,672)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2019

	Notes	**Year ended 30-6-2019 HK$'000**	Year ended 30-6-2018 HK$'000
Total comprehensive (expenses)/income for the year attributable to:			
Equity holders of the Company		**(43,606)**	(61,443)
Non-controlling interests		**110**	(10,229)
		(43,496)	(71,672)

		Year ended 30-6-2019	Year ended 30-6-2018
		HK Cents	HK Cents
Loss per share attributable to equity holders of the Company	*18*		
Basic		**(1.35)**	(1.85)
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30-6-2019 HK$'000	30-6-2018 HK$'000
Non-current assets			
Property, plant and equipment	*19*	**1,571**	3,896
Goodwill	*20*	**177,554**	124,284
Intangible assets	*21*	**8,253**	20,631
Financial assets at fair value through other comprehensive income	*22*	**—**	—
Available-for-sale financial assets	*22*	**—**	—
Interests in joint ventures	*23*	**—**	—
		187,378	148,811
Current assets			
Inventories	*24*	**160**	468
Trade receivables	*25*	**19,975**	7,900
Other receivables, deposits and prepayments	*26*	**14,509**	13,599
Bank balances and cash	*27*	**6,646**	4,719
		41,290	26,686
Current liabilities			
Trade payables	*28*	**2,966**	250
Accruals and other payables	*29*	**49,237**	100,328
Amounts due to directors	*30*	**47,649**	39,781
Obligations under finance leases	*31*	**150**	194
Convertible bonds	*32*	**89,345**	89,413
Derivative financial liabilities	*32*	**10**	260
Tax liabilities		**19**	1,423
		189,376	231,649
Net current liabilities		**(148,086)**	(204,963)
Total assets less current liabilities		**39,292**	(56,152)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**30-6-2019 HK$'000**	30-6-2018 HK$'000
Non-current liabilities			
Obligations under finance leases	*31*	—	150
Deferred tax liabilities	*33*	**2,053**	3,697
		2,053	3,847
Net assets/(liabilities)		**37,239**	(59,999)
Capital and reserves			
Share capital	*34*	**51,360**	41,135
Reserves		**(13,624)**	(100,527)
Equity/(capital deficiency) attributable to equity holders of the Company		**37,736**	(59,392)
Non-controlling interests		**(497)**	(607)
Total equity/(capital deficiency)		**37,239**	(59,999)

The consolidated financial statements on pages 49 to 148 were approved and authorised for issue by the Board of Directors on 27 September 2019 and are signed on its behalf by:

CHEUNG Kwai Lan
Director

CHAN Ting
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000 *(Note a)*	Share option reserve HK$'000 *(Note 35)*	Translation reserve HK$'000 *(Note b)*	Convertible bonds reserve HK$'000	Special reserve HK$'000	Capital reserve HK$'000 *(Note d)*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2017	41,135	2,480,372	1,484	35,572	1,547	5,543	2,672	(1)	5,769	(2,574,739)	(646)	11,239	10,593
Loss for the year	—	—	—	—	—	—	—	—	—	(61,034)	(61,034)	(10,551)	(71,585)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	—	(409)	—	—	—	—	(409)	322	(87)
Total comprehensive expenses for the year	—	—	—	—	—	(409)	—	—	—	(61,034)	(61,443)	(10,229)	(71,672)
Changes in reserves arising from amendments to terms of convertible bonds in July 2017 *(Note c (i))*	—	—	—	—	—	—	528	—	—	2,672	3,200	—	3,200
Deferred tax liabilities arising from amendments to terms of convertible bonds	—	—	—	—	—	—	(528)	—	—	—	(528)	—	(528)
Changes in reserves arising from amendments to terms of convertible bonds in January 2018 *(Note c (ii))*	—	—	—	—	—	—	(2,672)	—	—	2,672	—	—	—
Recognition of equity-settled share-based payments	—	—	—	—	25	—	—	—	—	—	25	—	25
Share options lapsed	—	—	—	—	(1,572)	—	—	—	—	1,572	—	—	—
Acquisition of subsidiaries *(Note 36)*	—	—	—	—	—	—	—	—	—	—	—	3,326	3,326
Disposal of subsidiaries *(Note 37)*	—	—	—	—	—	—	—	—	4,415	(4,415)	—	(4,943)	(4,943)
At 30 June 2018 and 1 July 2018	41,135	2,480,372	1,484	35,572	—	5,134	—	(1)	10,184	(2,633,272)	(59,392)	(607)	(59,999)
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(46,796)**	**(46,796)**	**1,170**	**(45,626)**
Exchange differences arising from translation of financial statements of overseas operations	**—**	**—**	**—**	**—**	**—**	**3,190**	**—**	**—**	**—**	**—**	**3,190**	**(1,060)**	**2,130**
Total comprehensive (expenses)/income for the year	**—**	**—**	**—**	**—**	**—**	**3,190**	**—**	**—**	**—**	**(46,796)**	**(43,606)**	**110**	**(43,496)**
Shares issued upon placement of shares	**2,100**	**37,884**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**39,984**	**—**	**39,984**
Shares issued on acquisition of subsidiaries *(Note 36)*	**8,125**	**92,625**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**100,750**	**—**	**100,750**
Transferred to accumulated losses	**—**	**—**	**—**	**(35,572)**	**—**	**—**	**—**	**—**	**—**	**35,572**	**—**	**—**	**—**
At 30 June 2019	**51,360**	**2,610,881**	**1,484**	**—**	**—**	**8,324**	**—**	**(1)**	**10,184**	**(2,644,496)**	**37,736**	**(497)**	**37,239**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

Notes:

(a) The employee share-based compensation reserve comprises the cumulative value of employee services received for the issue of shares under share award scheme. The share award scheme was expired, thus, the reserve is transferred to accumulated losses during the year.

(b) The translation reserve includes the exchange differences on monetary items which form part of the Group's net investment in the foreign operation.

(c) During the years ended 30 June 2018, the holder of the convertible bonds has given consent for the amendments of the maturity dates of the bonds, as follows:

(i) On 17 July 2017, the bondholder has given written consent to the Company to extend the maturity date of the convertible bonds to 17 January 2018. In this regard, equity component of the convertible bonds as at 17 July 2017 was adjusted to HK$3,200,000 being the fair value of the conversion option of the convertible bonds as at that date.

(ii) On 18 January 2018, the Company entered into a second amendment agreement with the bondholder to amend the maturity date of the bonds to 17 July 2018. Since the Company changed its functional currency from HK$ to RMB as referred in Note 1 during the year ended 30 June 2018, the equity component of the convertible bonds at 18 January 2018 of HK$2,672,000 was released to accumulated losses, and the derivative financial liabilities of approximately HK$2,081,000, which represents the fair value of the conversion option of the convertible bonds at that date, was recognised.

(d) Capital reserve represents gain on acquisition and deposal of partial interest in subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Notes	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(47,938)**	(73,399)
Adjustments for:			
Interest income	*11*	**(15)**	(9)
Change in fair value of derivative financial liabilities	*11*	**(5,082)**	(1,821)
Fair value gain on investment in associates	*11*	**(17,375)**	—
Write back of consideration payable for acquisition of subsidiaries	*11*	**(43,000)**	(2,560)
Recovery on trade receivables previously written off	*11*	**—**	(298)
Gain on liquidation of subsidiaries	*11*	**(495)**	(9)
Gain on disposal of subsidiaries	*11*	**—**	(6,564)
Interest expenses	*13*	**11,950**	12,581
Amortisation of intangible assets	*14*	**9,395**	7,889
Depreciation of property, plant and equipment	*14*	**1,707**	4,893
Loss on disposal of property, plant and equipment	*14*	**474**	816
Impairment loss on goodwill	*12*	**65,130**	—
Impairment loss on intangible assets	*12*	**2,800**	—
Change in fair value of contingent consideration		**—**	480
Provision for doubtful receivables on:			
— trade receivables	*14*	**213**	—
— other receivables	*14*	**—**	8,436
— deposits paid	*14*	**—**	361
Write off of:			
— property, plant and equipment	*14*	**—**	1,907
— trade receivables	*14*	**—**	138
— other receivables	*14*	**—**	940
— deposits paid	*14*	**—**	1,139
— amount due from a related company	*14*	**24**	29
— inventories	*14*	**66**	683
Equity-settled share-based payments		**—**	25
Operating cash flows before movements in working capital		**(22,146)**	(44,343)
Decrease in inventories		**243**	541
Increase in trade receivables, and other receivables, deposits and prepayments		**(8,820)**	(1,614)
(Decrease)/increase in trade payables, accruals and other payables		**(2,440)**	15,279
Cash used in operations		**(33,163)**	(30,137)
Tax paid		**(691)**	—
Net cash used in operating activities		**(33,854)**	(30,137)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Notes	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
INVESTING ACTIVITIES			
Interest received		**15**	9
Purchases of property, plant and equipment		**—**	(456)
Proceeds from disposal of property, plant and equipment		**—**	4
Cash inflow on acquisition of subsidiaries	*36*	**10**	247
Cash outflow on disposal of a subsidiary	*37*	**—**	(168)
Net cash generated from/(used in) investing activities		**25**	(364)
FINANCING ACTIVITIES			
Interest paid		**(10,763)**	(3,602)
Issue of shares upon placement		**39,984**	—
Repayment of obligations under finance leases		**(194)**	(188)
Increase in amounts due to directors		**7,868**	24,705
Net cash generated from financing activities		**36,895**	20,915
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,066**	(9,586)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**4,719**	14,302
Effects of foreign exchange rate changes		**(1,139)**	3
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**6,646**	4,719
ANALYSIS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Bank balances and cash	*27*	**6,646**	4,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Sinopharm Tech Holdings Limited ("**the Company**") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company's registered office is located at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and its principal place of business is located at Units 307–313, 3/F., Wireless Centre, Phase One Hong Kong Science Park, Pak Shek Kok, New Territories, Hong Kong.

The Company changed its English name from China Vanguard You Champion Holdings Limited to Sinopharm Tech Holdings Limited and its dual foreign name in Chinese from 眾彩羽翔股份有限公司 to 國藥科技股份有限公司 with effect from 13 June 2019.

The principal activities of the Company is investment holding. The activities of its principal subsidiaries and joint ventures are set out in notes 45 and 23 respectively.

The Company's functional currency is Renminbi ("**RMB**") while that each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**").

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**") as the directors consider that HK$ is the appropriate presentation currency for the users of the Group's financial statements given that the shares of the Company are listed on the Stock Exchange.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the consolidated financial statements of the Group, comprising the Company and its subsidiaries, the directors of the Company have given consideration to the future liquidity of the Group in light of the Group's net current liabilities of HK$148,086,000 at 30 June 2019. As at 30 June 2019, the Group had convertible bonds with principal amounts of HK$89,625,000 (carrying amounts of HK$89,345,000) to be matured within one year after that date, consideration payable and convertible bond's interest payables amounted to HK$22,000,000 and HK$3,246,000 respectively (included in accruals and other payables) and amounts due to directors amounted to HK$47,649,000 which are included in current liabilities. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS – continued

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future. In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due within the next year from the date of approval of these consolidated financial statements, after taking into consideration of the measures and arrangements made by the Group subsequent to the end of the reporting period, as detailed below:

(a) The shareholders and directors of the Company, Madam Cheung Kwai Lan and Mr. Chan Tung Mei, and the director of the Company, Mr. Chan Ting, have agreed to provide adequate funds to the Company to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future, if required. These shareholders or directors have also agreed not to demand for repayment of amounts owed them by the Group until the Group has adequate working capital for repayment.

(b) On 5 June 2019, the Group obtained a written consent from the previous owner of the subsidiaries, under which the due date for payment of the consideration payable to the acquisition of the subsidiaries amounted to HK$22,000,000, which are included in accruals and other payables (Note 29), was extended to on or before 4 June 2020.

(c) The holder of the convertible bonds (Note 32) intends to extend the maturity date of the bonds of 17 January 2020 and not to request repayment of the bonds before 17 January 2021.

(d) The directors will continuously and closely monitor the Group's liquidity position and financial performance and implement measures to improve the Group's cash flows.

In light of the measures and arrangements implemented to date, the directors of the Company are of the view that the Group has sufficient cash resources to satisfy its working capital and other financial obligations for the next year from the date of approval of these consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the operations and development of the Group's business. Accordingly, the directors of the Company are of the view that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the carrying amounts of the Group's assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised HKFRSs applied in the current year

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year.

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- HKFRS 15 (Amendments) Clarification to HKFRS 15
- Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to HKFRS 1 and HKAS 28 as part of the Annual Improvements to HKFRSs 2014–2016 cycle
- Amendments to HKAS 40 Transfers to Investment Property
- Amendments to HKFRS 4 applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
- HK(IFRIC)–Int 22 Foreign Currency Transactions and Advance Consideration

The Group changed its accounting policies following the adoption of HKFRS 9 and HKFRS 15. The other amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 July 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 July 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and the related interpretations.

Information about the Group's accounting policies and performance obligations resulting from application of HKFRS 15 are disclosed in notes 4 and 10 respectively.

The application of the HKFRS 15 has no significant impact on the accumulated losses, classification of assets, liabilities and other components of equity at 1 July 2018.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 "Financial Instruments" and the related amendments

In the current year, the Group has applied HKFRS 9 "Financial Instruments", and the related consequential amendments. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("**ECL**") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts) and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 July 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. The difference between carrying amounts as at 30 June 2018 and the carrying amounts as at 1 July 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

From available-for-sale financial assets to financial assets at fair value through other comprehensive income

The Group elected to present in other comprehensive income for the fair value changes of all its financial assets previously classified as available for sale. The financial assets are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, the available-for-sale financial assets were fully impaired and no fair value change of the available-for-sale financial assets were recognised. The reclassification of these financial assets are shown as follows:

At 1 July 2018	**Financial assets at fair value through other comprehensive income** HK$	**Available-for-sale financial assets** HK$
Opening balance — as originally stated	—	—
Reclassification from available-for-sale financial assets to financial assets at fair value through other comprehensive income, upon application of HKFRS 9	—	—
Opening balance — as restated	—	—

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 "Financial Instruments" and the related amendments – continued

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on past due analysis.

ECL for other financial assets at amortised cost, including bank balances and other receivables, are assessed on 12 months ECL basis as there had been no significant increase in credit risk since initial recognition.

The application of the ECL model of HKFRS 9 has no material impact on the accumulated amount of impairment loss to be recognised by the Group as at 1 July 2018 as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 4.

New and revised HKFRSs not yet effective

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements:

Amendments to HKFRS 9	Prepayment features with negative compensation[1]
HKFRS 16	Leases[1]
HK (IFRIC) 23	Uncertainty over income tax treatments[1]
HKFRS 17	Insurance contracts[2]
HKAS 19	"Employee benefits" on plan amendment, curtailment or settlement[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Materials[3]
Amendments to HKFRS 3	Definition of Business[3]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 Cycle[1]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[3]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2020
4 Effective date to be determined

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of approximately HK$1,983,000 as disclosed in Note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Group completes a detailed review.

Other than the above, the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and all the applicable disclosures as required by the Hong Kong Companies Ordinance. In addition, the consolidated financial statements have been prepared in accordance with applicable disclosure provisions of the GEM Listing Rules.

The consolidated financial statements have been prepared on the historical cost convention, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use for the purposes of impairment assessment in HKAS 36.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Statement of compliance – continued

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

The significant accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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 owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and 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 and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

— deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

— liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

— assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the acquisition, which represents the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investment in a subsidiary is accounted for in the Company's financial statements at cost less any identified impairment loss. Cost includes directly attributable costs of investment. The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable.

Investments in joint ventures

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in joint ventures – continued

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKFRS 9/HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in joint ventures – continued

The Group continues to use the equity method when an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interest in the joint venture that is not related to the Group.

Revenue recognition

Accounting policies applied from 1 July 2018

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents goods or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Accounting policies applied from 1 July 2018 – continued

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

The Group has applied HKFRS 15, but has elected not to revise comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previously accounting policy.

Accounting policies applied prior to 1 July 2018

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has been passed.

Revenue from the provision of lottery-related and internet plus services are recognised when the services are rendered.

Revenue from consulting services are recognised when services are rendered.

Revenue from catering services are recognised when services are rendered.

Interest income from a financial asset (other than a financial assets at FVTPL) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment, comprising leasehold land and buildings, furniture, fixtures and equipment, plant and machinery, leasehold improvement, motor vehicles and computer equipment, are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The principal annual rates are as follows:

Leasehold land and buildings	3%–5% or over the lease term but limited to 15 years
Furniture, fixtures and equipment	7%–31%
Plant and machinery	3%–12%
Leasehold improvement	Over the lease term
Motor vehicles	6%–20%
Computer equipment	20%–25%

Property, plant and equipment held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sales.

Impairment loss on tangible and intangible assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment loss on tangible and intangible assets (other than goodwill) – continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating lease is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as expenses on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing – continued

Leasehold land and buildings – continued

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments for land" in the consolidated statement of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Intangible assets

Intangible assets acquired separately are capitalised at cost and those acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against the profit or loss in the year in which the expenditure is incurred.

Useful lives of acquired intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are stated at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with indefinite useful lives are stated at cost less any subsequent accumulated impairment losses.

Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets are tested for impairment annually either individually or at the CGU level. Useful lives are also examined on an annual basis and, where applicable, adjustments are made on a prospective basis.

As intangible asset is derecognised on disposal or no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of the intangible asset, calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset, is recognised in the consolidated statement of profit or loss and other comprehensive income in the year the intangible asset is derecognised.

Computer software

Costs incurred on the acquisition of computer software are capitalised in the consolidated statement of financial position at cost less amortisation and any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

Research and development expenditures

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

An internally generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity.

Where no internally generated intangible asset can be recognised, development cost is charged to profit or loss in the year in which it is incurred.

Service contracts

Acquired service contracts are stated at cost less amortisation and any identified impairment losses.

Intellectual property right

Acquired intellectual property right are stated at cost less amortisation and any identified impairment losses.

LED deployment contract

Acquired LED deployment contract are stated at cost less amortisation and any identified impairment losses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rate prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1 July 2005 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

Employee benefits

(a) Retirement benefits schemes

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

The employees of the Group's subsidiaries that operated in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The contributions are charged to consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the pension schemes.

(b) Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who, in the sole discretion of the Board, have contributed or may contribute to the Group. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Employee benefits – continued

(b) Share option schemes – continued

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated loss.

(c) Share award scheme

The Group also grants employees and consultants (but not directors) shares of the Company at nil consideration under its share award scheme. Under the share award scheme, the awarded shares are newly issued at par value. The fair value of the employees' and consultants' services received in exchange for the grant of shares newly issued is recognised as staff costs in the consolidated statement of profit or loss and other comprehensive income with a corresponding increase in an employee share-based compensation reserve under equity.

Dividends

Dividends proposed or declared after the date of the reporting period is not recognized as a liability at the date of the reporting period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that make strategic decisions.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of qualifying asset that necessarily take a substantial period of time to get ready for its intended use or sale are capitalised as part of the costs of that asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the consolidated statement of profit or loss and other comprehensive income in the year in which they are incurred.

Related parties

(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 a parent of the Group.

(b) An entity is related to 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;

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

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

Close family members 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("**FVTPL**")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments (other than financial assets classified as FVTPL), of which interest income is included in net gains and losses.

Financial assets (application of HKFRS 9 from 1 July 2018)

Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value with change in fair value either through other comprehensive income, or through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. For investments in equity investments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets (application of HKFRS 9 from 1 July 2018) – continued

Subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income and are included in "other losses, net". Interest income from these financial assets is included in finance income or other income using the effective interest method.

Equity investments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to recognise fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Where the Group elected to present equity investments at fair value through profit or loss, changes in the fair value of financial assets are recognised in the consolidated statement of profit or loss and other comprehensive income and are included in other gains/(losses) — net.

Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 8 details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial assets (prior to application of HKFRS 9 on 1 July 2018)

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets (prior to application of HKFRS 9 on 1 July 2018) – continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables, including trade and other receivables, and bank balances and cash, are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in consolidated statement of profit or loss and other comprehensive income.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments, they are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets (prior to application of HKFRS 9 on 1 July 2018) – continued

Impairment of financial assets – continued

For trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments carried at cost less any impairment loss will not be reversed in profit or loss in subsequent periods.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issued costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including trade payables, accruals and other payables, amounts due to directors, obligations under finance leases and convertible bonds are subsequently measured at amortised cost, using the effective interest rate method.

Convertible bonds issued by the Company

Convertible bonds issued by the Company contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(i) Conversion option to be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Convertible bonds issued by the Company – continued

(ii) Conversion option to be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments

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

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

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

Derecognition

Financial assets are derecognised only when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards or ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when and only when, the Group's obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future accounting periods.

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

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, additional impairment loss may arise. As at 30 June 2019, the carrying amount of goodwill is HK$177,554,000 (year ended 30-6-2018: HK$124,284,000). Impairment loss on goodwill amounted to HK$65,130,000 was recognised in respect of the current year (year ended 30-6-2018: HK$Nil). Details of impairment test for goodwill are set out in Note 20.

Amortisation of intangible assets

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The determination of useful lives and residual values involve management's estimation. The Group assesses annually the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation change for the year of change and the subsequent years.

For the current year, amortisation charge of intangible assets of HK$9,395,000 (Year ended 30-6-2018: HK$7,889,000) was charged to profit or loss in respect of the year.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Impairment of intangible assets

The Group assesses the future cash flows expected to arise from the intangible assets. Where the actual cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, impairment loss may arise.

As at 30 June 2019, the carrying amount of intangible assets is HK$8,253,000 (30-6-2018: HK$20,631,000). Impairment loss of HK$2,800,000 on intangible assets was recognised in respect of the current year (Year ended 30-6-2018: HK$Nil).

Provision for doubtful receivables

The Group makes provision for doubtful recovery of trade receivables and other receivables based on an assessment of the recoverability of receivables. Provision for doubtful receivables is made when events or changes in circumstances indicate that the balances may not be collectible. The identification of non-recoverability of receivables requires the use of judgement and estimates. Where the expectation on the recoverability of trade receivables and other receivables is different from the original estimate, such difference will impact the carrying amounts of trade receivables and other receivables and doubtful debts expenses in the period which such estimate has been changed.

The Group uses provision matrix to calculate expected credit loss ("**ECL**") for the trade receivables based on the grouping of various trade receivables that have similar loss patterns. The provision matrix is based on the Group's historical default rates and taking into consideration forward-looking information that is reasonable and supportable available without undue costs and effort. At every reporting date, the historical observed default rates are reassessed and changed in the forward-looking information are considered. In addition, trade receivables with significant balances are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 8.

For the current year, provision for doubtful receivables totalled HK$213,000 (Year ended 30-6-2018: HK$8,797,000) was recognised in consolidated statement of profit or loss and other comprehensive income.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes convertible bonds disclosed in Note 32, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses as disclosed in consolidated statement of changes in equity. Management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issuance of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	30-6-2019 HK$'000	30-6-2018 HK$'000
Financial assets		
At fair value		
Financial assets at fair value through other comprehensive income	**—**	—
At cost less impairment		
Available-for-sale financial assets	**—**	—
At amortised cost		
Trade receivables	**19,975**	7,900
Financials assets included in other receivables, deposits and prepayments.	**13,938**	11,481
Bank balances and cash	**6,646**	4,719
	40,559	24,100
	40,559	24,100
Financial liabilities		
At fair value		
Derivative financial liabilities	**10**	260
At amortised cost		
Trade payables	**2,966**	250
Financial liabilities included in accruals and other payables	**43,743**	90,333
Amounts due to directors	**47,649**	39,781
Obligations under financial leases	**150**	344
Convertible bonds	**89,345**	89,413
	183,853	220,121
	183,863	220,381

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, bank balances and cash, trade payables, other payables, convertible bonds, derivative financial liabilities, amounts due to directors and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Group manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner. The Group's and the Company's overall strategy remains unchanged from that of the prior year.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk

The Group is exposed to credit risk and the Group's maximum exposure to credit risk in relation to financial assets is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, having considered available reasonable and supportive forwarding- looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

The credit quality of the debtors is assessed based on their financial positions, past experience and other factors. The Group has policies in place to ensure credit terms are granted to reliable debtors.

The Group performed ongoing credit evaluations of its debtors' financial condition and did not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintained a provision for doubtful accounts and actual losses incurred had been within management's expectations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

(i) Trade receivables

In addition, the Group applies the simplified approach to provide for expected credit losses for trade receivables prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

As at 30 June 2019, the loss allowance for trade receivables was determined as follows:

	Receivables aged (based on invoice date)					
	0–60 days	61–365 days	365–540 days	541–730 days	Over 2 years	Total
Expected loss rate	0%	5%	30%	50%	100%	
Gross carrying amount (HK$'000)	17,343	2,752	25	—	68,063	88,183
Loss allowance (HK$'000)	—	138	7	—	68,063	68,208

The above expected credit losses also incorporated forward looking information.

Receivables that aged less than 60 days substantially related to customers that have good trade records with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there had not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 30 June 2019, the Group had a concentration of credit risk given that the top 5 customers account for 95.74% (2018: 84.89%) of the Group's total year end trade receivables balance. However, the Group concludes that the credit risk in relation to these customers is not significant because they have no history of default in recent years. The Group's historical experience in collection of receivables falls within recorded allowance and the directors do not expect any major impairment on trade receivables.

(ii) Other receivables

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

(ii) Other receivables – continued

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of categories	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery	Asset is written off

Management made periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. In calculating the expected credit loss rates, the Group considers historical loss rates for the other of receivables and adjusts for forward looking macroeconomic data.

As at 30 June 2019, the internal credit rating of other receivables is performing. The Group has assessed that the expected credit loss rate for these receivables is immaterial under 12 months expected losses method. Thus no loss allowance for other receivables was recognized.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

(iii) Cash at bank

The table below shows the details of bank deposit balances maintained at the end of the reporting period:

	Rating	**2019** **HK$'000**	2018 HK$'000
Cash at banks and bank deposits	Baa3-Aa2	**6,610**	4,693

The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within the "A" category is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Moody's. Given that significant portion of the bank deposits are placed with banks that are independently rated with high credit rating with no default history in past years, management of the Group considers that the credit risk on the bank balances is limited.

The credit risk on liquid funds is limited because the counterparties are authorised banks in Hong Kong and the PRC.

Foreign currency risk

The Company's subsidiaries mainly operates in the PRC, with most of the transactions denominated and settled in RMB. The appreciation or devaluation of RMB against foreign currencies may have positive or negative impact on the results of operations and financial position of the Group.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Foreign currency risk – continued

At the end of the reporting period, the Group has convertible bonds and certain bank balances denominated in HK$ and US$, which are the currencies other than the functional currency of respective group entities. The carrying amounts of the Group's foreign currency denominates monetary assets and liabilities are as follows:

	Assets		Liabilities	
	30-6-2019	30-6-2018	**30-6-2019**	30-6-2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**15,905**	8,308	**176,148**	217,466
US$	**5**	7	**—**	—

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. The directors consider that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

The Group uses a 5% sensitivity rate to report foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. If RMB had strengthened/weakened by 5%, loss for the year ended 30 June 2019 would have been increased/decreased by approximately HK$8,012,000 as a result of foreign exchange losses/gains on translation of transactions denominated in HK$ (Year ended 30-6-2018: increased/decreased loss by approximately HK$10,458,000).

Certain financial assets and liabilities of the Group are denominated in US$. However, the exchange rate of US$ against HK$ is relatively stable, accordingly, no sensitivity analysis has been presented on the currency risk.

Interest rate risk

The Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest- bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

Convertible bonds at fixed rates expose the Group to fair value interest rate risk. Details of the Group's convertible bonds are set out in Note 32.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Interest rate risk – continued

Sensitivity analysis

At 30 June 2019, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variable held constant, would increase/decrease the Group's loss by approximately HK$47,000 (Year ended 30-6-2018: increase/decrease loss by approximately HK$47,000). The above sensitivity analysis 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 financial instrument 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 next financial year. The analysis was performed on the same basis in respect of the prior year ended 30-6-2018.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including short-term investment of cash surpluses and raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables analyse the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay:

30-6-2019

	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Over 5 years HK$'000	Carrying amounts HK$'000
Trade payables	2,966	2,966	—	—	—	2,966
Other payables	43,743	43,743	—	—	—	43,743
Obligations under finance leases	151	151	—	—	—	150
Amounts due to directors	47,649	47,649	—	—	—	47,649
Convertible bonds *(Note)*	89,964	89,964	—	—	—	89,345
	184,473	184,473	—	—	—	183,853

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk – continued

30-6-2018

	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Over 5 years HK$'000	Carrying amounts HK$'000
Trade payables	250	250	—	—	—	250
Other payables	90,333	90,333	—	—	—	90,333
Obligations under finance leases	353	202	151	—	—	344
Amounts due to directors	39,781	39,781	—	—	—	39,781
Convertible bonds *(Note)*	89,964	89,964	—	—	—	89,413
	220,681	220,530	151	—	—	220,121

Note: This is categorised based on contractual terms of redemption at maturity on the assumption that there were no redemption or conversion of the convertible bonds outstanding at the end of the reporting period before the maturity dates.

Fair value

The carrying amounts of financial instruments measured at fair value at the end of the reporting period are categorised among the three levels of the fair value hierarchy defined in HKFRS 13 "Fair value measurement", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Fair value – continued

(a) Financial assets at fair value

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
At 30 June 2019				
Financial assets at fair value through other comprehensive income				
Equity securities listed in Hong Kong	—	—	—	—
Unlisted equity in PRC	—	—	—	—
	—	—	—	—

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 30 June 2018				
Available-for-sale financial assets				
Equity securities listed in Hong Kong	—	—	—	—
Unlisted equity in PRC	—	—	—	—
	—	—	—	—

There were no transfers between Levels 1, 2 and 3 during the year.

The fair value of the equity securities listed in Hong Kong, which is categorised in Level 1, is based on quoted market prices at the end of the reporting period. The quoted market price used is the current bid price. Whilst the fair value of the unlisted equity investment in PRC is categorized in Level 3. In this approach, the discounted cash flow method was used to capture the present value of future expected cash flows to be derived from the underlying assets.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Fair value – continued

(b) Financial liabilities at fair value

The Group's derivative financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial liabilities is determined (in particular, the valuation technique(s) and inputs used).

Financial liabilities	Fair value as at 30 June 2019 HK$'000	Fair value as at 30 June 2018 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial liabilities	**10**	260	Level 3	Binominal option pricing model with significant unobservable inputs detailed in note 32.

There were no transfers between Level 1 and 2 during both of the years presented.

(c) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis but fair value disclosures are required.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values, which are included in Level 3 categories, have been determined in accordance with generally accepted pricing models based on a discounted cash flows analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

(d) Reconciliation of Level 3 fair value measurements

The derivative financial liabilities are measured at fair value on Level 3 fair value measurement. Reconciliation of Level 3 fair value measurement is not presented.

9. SEGMENT INFORMATION

The factors that used to identify the Group's operating segments, including the basis of organization, are mainly based on the services provided by the Group's operating divisions as follows:

(a) Provision of lottery-related services

(b) Provision of internet plus services

- Solution services: Provision of internet related solution services
- Supply chain services: Provision of supply chain management, data analysis and related services and trading of goods through internet platform

(c) Others services, including catering services and consulting services

For the purposes of monitoring segment performances and allocating resources between segments, all assets and liabilities are allocated to operating segments other than the corporate assets and liabilities.

Information regarding the above segments is reported below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. SEGMENT INFORMATION – continued

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

Year ended 30-6-2019

	Lottery-related services HK$'000	Internet plus: Solution services HK$'000	Internet plus: Supply chain services HK$'000	Other services HK$'000	Total HK$'000
Segment revenue:					
Reportable segment revenue	20,980	8,995	13,424	361	43,760
Elimination of inter-segment revenue	(257)	—	—	—	(257)
Sales to external customers	20,723	8,995	13,424	361	43,503
Segment profit/(loss) before other income and gains and impairment of assets	2,121	(399)	487	(805)	1,404
Write back of consideration payable for acquisition of subsidiaries	—	43,000	—	—	43,000
Fair value gain on investment in associates	—	17,375	—	—	17,375
Impairment of goodwill	(45,946)	(19,184)	—	—	(65,130)
Impairment of intangible assets	(2,800)	—	—	—	(2,800)
Segment profit/(loss)	(46,625)	40,792	487	(805)	(6,151)
Other unallocated income					39
Fair value gain on derivative financial liabilities					5,082
Other unallocated expenses					(34,958)
Finance costs					(11,950)
Loss before tax					(47,938)
Income tax credit					2,312
Loss for the year					(45,626)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. SEGMENT INFORMATION – continued

(a) Segment revenue and results – continued

Year ended 30-6-2018

	Lottery-related services HK$'000	Internet plus: Solution services HK$'000	Internet plus: Supply chain services HK$'000	Other services HK$'000	Total HK$'000
Segment revenue:					
Reportable segment revenue	21,874	1,443	—	2,770	26,087
Elimination of inter-segment revenue	—	—	—	(740)	(740)
Sales to external customers	21,874	1,443	—	2,030	25,347
Segment loss	(14,152)	(6,861)	—	(1,562)	(22,575)
Other unallocated income					2,329
Fair value gain on derivative financial liabilities					1,821
Write back of consideration payable for acquisition of subsidiaries					2,560
Gain on disposal of subsidiaries					6,564
Gain on liquidation of subsidiaries					9
Other unallocated expenses					(51,526)
Finance costs					(12,581)
Loss before tax					(73,399)
Income tax credit					1,814
Loss for the year					(71,585)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. SEGMENT INFORMATION – continued

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

30-6-2019

		Internet plus			
	Lottery-related services HK$'000	Solution services HK$'000	Supply chain services HK$'000	Other services HK$'000	Total HK$'000
Assets					
Segment assets	27,132	58,916	128,584	112	214,744
Unallocated assets					13,924
Total assets					228,668
Liabilities					
Segment liabilities	2,133	40,363	2,176	46	44,718
Unallocated liabilities					146,711
Total liabilities					191,429

30-6-2018

		Internet plus			
	Lottery-related services HK$'000	Solution services HK$'000	Supply chain services HK$'000	Other services HK$'000	Total HK$'000
Assets					
Segment assets	80,527	77,539	—	871	158,937
Unallocated assets					16,560
Total assets					175,497
Liabilities					
Segment liabilities	9,083	16,429	—	253	25,765
Unallocated liabilities					209,731
Total liabilities					235,496

9. SEGMENT INFORMATION – continued

(c) Other segment information

Year ended 30-6-2019

	Lottery-related services HK$'000	Internet plus Solution services HK$'000	Internet plus Supply chain services HK$'000	Other services HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to property, plant and equipment	—	—	—	—	—
Depreciation of property, plant and equipment	1,387	94	—	226	1,707
Impairment loss on goodwill	45,946	19,184	—	—	65,130
Impairment loss on intangible assets	2,800	—	—	—	2,800
Loss on disposal of property, plant and equipment	—	—	—	474	474
Provision for doubtful receivables:					
— trade receivables	213	—	—	—	213
— other receivables	—	—	—	—	—
— deposits paid	—	—	—	—	—
Write off of:					
— property, plant and equipment	—	—	—	—	—
— trade receivables	—	—	—	—	—
— other receivables	—	—	—	—	—
— deposits paid	—	—	—	—	—
— inventories	—	—	—	66	66
— amount due from a related company	—	—	—	24	24
Amortisation of intangible assets	2,801	6,572	—	22	9,395

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. SEGMENT INFORMATION – continued

(c) Other segment information – continued

Year ended 30-6-2018

	Lottery-related services HK$'000	Internet plus: Solution services HK$'000	Internet plus: Supply chain services HK$'000	Other services HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to property, plant and equipment	322	99	—	35	456
Depreciation of property, plant and equipment	4,317	71	—	505	4,893
Impairment loss on goodwill	—	—	—	—	—
Impairment loss on intangible assets	—	—	—	—	—
Loss on disposal of property, plant and equipment	816	—	—	—	816
Provision for doubtful receivables:					
— trade receivables	—	—	—	—	—
— other receivables	8,436	—	—	—	8,436
— deposits paid	361	—	—	—	361
Write off of:					
— property, plant and equipment	1,907	—	—	—	1,907
— trade receivables	138	—	—	—	138
— other receivables	940	—	—	—	940
— deposits paid	1,139	—	—	—	1,139
— inventories	683	—	—	—	683
— amount due from a related company	29	—	—	—	29
Amortisation of intangible assets	2,960	4,929	—	—	7,889

9. SEGMENT INFORMATION – continued

(d) Geographical information

The Group's operations are mainly located in the PRC and Hong Kong. The following table provides an analysis of the Group's sales by geographical markets:

	Revenue from external customers	
	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
PRC	**30,080**	25,347
Hong Kong	**13,423**	—
	43,503	25,347

The following is an analysis of non-current assets excluding financial instruments, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Non-current assets		Additions to property, plant and equipment	
	30-6-2019 HK$'000	30-6-2018 HK$'000	**30-6-2019 HK$'000**	30-6-2018 HK$'000
PRC	**68,390**	147,723	**—**	439
Hong Kong	**118,988**	1,088	**—**	17
	187,378	148,811	**—**	456

Revenue from major products and services

The Group's revenue from its products and services is as follows:

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Lottery-related services	**20,723**	21,874
Internet plus services (solution)	**8,995**	1,443
Internet plus services (supply chain)	**13,424**	—
Other services	**361**	2,030
	43,503	25,347

9. SEGMENT INFORMATION – continued

(e) Information about major customers

Revenue from customers for the year ended 30 June 2019 contributing over 10% of the total revenue of the Group is as follows:

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Customer A — Provision of internet plus services (supply chain)	**13,423**	N/A
Customer B — Provision of lottery-related services	**10,086**	15,129
Customer C — Provision of internet plus services (solution)	**7,355**	N/A
Customer D — Provision of lottery-related services	**4,289**	4,430

Revenue from customer A and customer C for the year ended 30 June 2018 did not contribute 10% or more to the Group's revenue for that year.

10. REVENUE

The principal activities of the Group are provision of (i) lottery-related services, (ii) internet plus services (solution and supply chain) and (iii) other services (including catering services and consultancy services).

Revenue represents income from the following services rendered by the Group, net of returns, discounts allowed or sales taxes:

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Lottery-related services	**20,723**	21,874
Internet plus services (solution)	**8,995**	1,443
Internet plus services (supply chain)	**13,424**	—
Other services	**361**	2,030
	43,503	25,347

Revenue from internet plus services (supply chain) and catering services is recognised at a point of time, when the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Based on the historical pattern, the directors of the Company are of the opinion that the income from lotter-related services, internet plus services (solution) and other services (including consulting services) are derived from services rendered for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to the unsatisfied contracts is not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. OTHER INCOME AND GAINS

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Interest income	**15**	9
Fair value gain on derivative financial liabilities *(Note 32)*	**5,082**	1,821
Write back of consideration payable for acquisition of subsidiaries *(Note 29a)*	**43,000**	2,560
Exchange gains	**—**	1,816
Fair value gain on investment in associates *(Note 36(ii))*	**17,375**	—
Gain on disposal of subsidiaries *(Note 37)*	**—**	6,564
Gain on liquidation of subsidiaries	**495**	9
Recovery of trade receivables previously written off	**—**	298
Rental income	**—**	504
Others	**302**	370
	66,269	13,951

12. IMPAIRMENT LOSS ON ASSETS

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Impairment loss on:		
— goodwill *(note 20)*	**65,130**	—
— intangible assets	**2,800**	—
	67,930	—

13. FINANCE COSTS

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Interest on:		
— bank overdrafts	**—**	4
— finance leases	**8**	14
— convertible bonds	**11,942**	12,563
	11,950	12,581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. LOSS BEFORE TAX

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Loss before tax has been arrived at after charging:		
Staff costs (including directors' emoluments *(Note 15)*):		
— Directors' fees, wages and salaries	**26,283**	44,459
— Retirement benefits scheme contributions	**1,304**	4,330
— Equity-settled share-based payment	**—**	25
Total staff costs	**27,587**	48,814
Cost of services	**7,282**	8,586
Cost of inventories sold	**12,520**	1,056
Auditors' remuneration	**771**	763
Depreciation of property, plant and equipment:		
— Owned assets	**1,543**	4,729
— Assets held under finance leases	**164**	164
Amortisation of intangible assets	**9,395**	7,889
Loss on disposal of property, plant and equipment	**474**	816
Minimum lease payments under operating leases:		
— Land and buildings	**3,779**	6,228
— Office equipment	**86**	65
Provision for doubtful receivables on:		
— trade receivables *(Note 25)*	**213**	—
— other receivables *(Note 26)*	**—**	8,436
— deposits paid *(Note 26)*	**—**	361
Write-off of assets included in administrative and operating expenses:		
— property, plant and equipment	**—**	1,907
— trade receivables	**—**	138
— other receivables	**—**	940
— deposits paid	**—**	1,139
— amount due from a related company	**24**	29
— inventories	**66**	683
Exchange losses, net	**3,817**	—

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable to 6 directors (Year ended 30-6-2018: 6 directors), were analysed as follows:

For the year ended 30 June 2019

	Fees HK$'000	Salaries and other emoluments HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive Directors				
CHEUNG Kwai Lan	240	5,880	—	6,120
CHAN Ting	240	3,000	18	3,258
Non-executive Director				
CHAN Tung Mei	120	540	—	660
Independent Non-executive Directors				
YANG Qing Cai	120	—	—	120
TO Yan Ming Edmond *(note (i))*	240	—	—	240
LIU Ta-pei	240	—	—	240
	1,200	9,420	18	10,638

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

(a) Directors' emoluments – continued

For the year ended 30 June 2018

	Fees HK$'000	Salaries and other emoluments HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive Directors				
CHEUNG Kwai Lan	240	5,880	—	6,120
CHAN Ting	240	3,000	18	3,258
Non-executive Director				
CHAN Tung Mei	120	360	—	480
Independent Non-executive Directors				
YANG Qing Cai	120	—	—	120
TO Yan Ming Edmond *(note (i))*	228	—	—	228
LIU Ta-pei	228	—	—	228
	1,176	9,240	18	10,434

Note (i): To Yan Ming Edmond has passed away on 28 August 2019. The Group is endeavouring to identify suitable candidate to fill the vacancies as soon as practicable.

(b) Senior management's emoluments

The five highest paid employees of the Group during the year include two directors (Year ended 30-6-2018: two directors) whose emoluments are set out above. The emoluments paid or payable to the remaining three (Year ended 30-6-2018: three) highest paid employees, who are not a director of the Company, are as follows:

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Salaries, allowances and other benefits	**3,594**	4,305
Contributions to retirement benefits scheme	**47**	54
	3,641	4,359

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

(b) Senior management's emoluments – continued

The emoluments of the three individuals (year ended 30-6-2018: three individuals) fell within the following bands:

	Year ended 30-6-2019 No. of individuals	Year ended 30-6-2018 No. of individuals
Nil – HK$1,000,000	**—**	—
HK$1,000,001 – HK$1,500,000	**3**	2
HK$1,500,001 – HK$2,000,000	**—**	1

No emoluments were paid by the Group to the directors as an inducement to join the Group or as compensation for loss of office for both of the years presented.

16. INCOME TAX CREDIT

The amount of tax credit to the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Current year		
— Hong Kong Profits Tax	**(19)**	—
— PRC income tax	**—**	—
	(19)	—
(Under)/over provision in prior years		
— Hong Kong Profits Tax	**(691)**	—
— PRC income tax	**1,378**	—
	668	—
Deferred tax credit *(note 33)*	**1,644**	1,814
Income tax credit for the year	**2,312**	1,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INCOME TAX CREDIT – continued

Hong Kong Profits Tax has been provided at 8.25% (year ended 30-6-2018: 16.5%) of the assessable profit derived in Hong Kong. Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department ("**IRD**") from the year of assessment 2018/19 onwards, the Group's first HK$2 million of assessable profits under Hong Kong profits tax during the year ended 31 March 2019 is subject to a tax rate of 8.25%.

The Group's PRC subsidiaries are subjected to PRC Enterprise Income Tax at the statutory rate of 25% (year ended 30-6-2018: 25%).

The income tax credit can be reconciled to the loss before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Loss before tax	**(47,938)**	(73,399)
Tax at the applicable tax rate	**(11,323)**	(14,016)
Tax effect of expenses that are not deductible for tax purposes	**16,873**	7,805
Tax effect of income that is not taxable for tax purposes	**(10,867)**	(637)
Tax effect of tax losses not recognised	**902**	5,034
Utilisation of tax losses not previously recognised	**2,852**	—
Over provision in previous years	**(688)**	—
Others	**(61)**	—
Income tax credit	**(2,312)**	(1,814)

17. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2019, nor has any dividend been proposed since the end of the reporting date (Year ended 30-6-2018: Nil).

18. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted loss per share attributable to the equity holders of the Company is based on the following data:

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Loss for the year for the purpose of basic loss per share		
Loss for the year attributable to the equity holders of the Company	**(46,796)**	(61,034)

	Year ended 30-6-2019 '000	Year ended 30-6-2018 '000
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,457,101**	3,290,855

No diluted loss per share for both of the years presented is shown as the exercise of the outstanding convertible bonds and share options issued by the Company would result in anti-dilutive of the loss per share of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Leasehold improvement HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
COST							
At 1 July 2017	—	6,682	6,235	5,178	4,921	17,208	40,224
Additions	—	11	—	326	—	119	456
Acquisition of subsidiaries *(Note 36)*	—	47	—	30	—	194	271
Disposals/write offs	—	(1,164)	—	(1,218)	(387)	(1,313)	(4,082)
Disposal of subsidiaries *(Note 37)*	—	—	—	—	—	(3,787)	(3,787)
Exchange realignment	—	190	184	94	72	503	1,043
At 30 June 2018 and 1 July 2018	—	5,766	6,419	4,410	4,606	12,924	34,125
Disposals/write offs	—	(3,261)	(5,432)	(931)	(280)	(116)	(10,020)
Exchange realignment	—	(220)	(256)	(96)	(85)	(476)	(1,133)
At 30 June 2019	**—**	**2,285**	**731**	**3,383**	**4,241**	**12,332**	**22,972**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 July 2017	—	5,119	6,147	2,856	3,054	9,788	26,964
Depreciation charged for the year	—	446	—	1,225	517	2,705	4,893
Eliminated on disposals/write offs	—	(317)	—	(272)	(130)	(636)	(1,355)
Eliminated on disposals of subsidiaries *(Note 37)*	—	—	—	—	—	(893)	(893)
Exchange realignment	—	139	181	19	53	228	620
At 30 June 2018 and 1 July 2018	—	5,387	6,328	3,828	3,494	11,192	30,229
Depreciation charged for the year	—	155	33	72	471	976	1,707
Eliminated on disposals/write offs	—	(3,261)	(5,461)	(461)	(216)	(107)	(9,506)
Exchange realignment	—	(207)	(252)	(74)	(74)	(422)	(1,029)
At 30 June 2019	—	**2,074**	**648**	**3,365**	**3,675**	**11,639**	**21,401**
CARRYING AMOUNTS							
At 30 June 2019	**—**	**211**	**83**	**18**	**566**	**693**	**1,571**
At 30 June 2018	—	379	91	582	1,112	1,732	3,896

At 30 June 2019, the Group's property, plant and equipment with the carrying amount of HK$355,000 (30-6-2018: HK$519,000) were held under finance leases.

20. GOODWILL

	HK$'000
COST	
At 1 July 2017	184,255
Arose from acquisition of subsidiaries *(Note 36)*	61,538
Eliminated on disposal of subsidiaries *(Note 37)*	(50,904)
At 30 June 2018 and 1 July 2018	194,889
Arose from acquisition of subsidiaries *(Note 36)*	118,400
At 30 June 2019	**313,289**
IMPAIRMENT	
At 1 July 2017	121,509
Eliminated on disposal of subsidiaries *(Note 37)*	(50,904)
At 30 June 2018 and 1 July 2018	70,605
Impairment loss recognised for the year	65,130
At 30 June 2019	**135,735**
CARRYING AMOUNTS	
At 30 June 2019	**177,554**
At 30 June 2018	124,284

For the purpose of impairment testing, goodwill has been allocated to the following cash-generating units ("**CGUs**"):

	30-6-2019 HK$'000	30-6-2018 HK$'000
Lottery-related services	**16,800**	62,746
Internet plus solution services	**42,354**	61,538
Internet plus supply chain services	**118,400**	—
	177,554	124,284

20. GOODWILL – continued

Lottery-related services

The recoverable amount of the CGU has been determined based on value in use calculation using the future cash flow projection of the CGU, by reference to the valuation performed by an independent valuer. Revenue of the CGU adopted for the preparation of the cash flow projection is forecasted to be increased by 13% to 14% per annum for the first four years (30-6-2018: 6% to 8%) and 7% per annum for the fifth year (30-6-2018: 6% per annum), and cash flow projection of the CGU beyond the five-year period has been extrapolated using a steady of 3% (30-6-2018: 3%) per annum growth rate which is expected to be the long-term growth rate of lottery business in the PRC. The key assumptions for the value in use calculation are discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Discount rate adopted for the cash flow projection is 18.8% (30-6-2018: 12.5%). The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. The operating margin and growth rate within the five-year period have been based on management expectation by reference to past performance and industry trend.

Management of the Group believe that any reasonably possible change in the key assumptions would not cause the carrying amount of the CGU of lottery-related services to significantly exceed its recoverable amount.

Based on the value in use of the CGUs of lottery-related services which is estimated to be HK$16,800,000 (30-6-2018: HK$62,746,000), impairment loss amounting to HK$45,946,000 (year ended 30-6-2018: HK$Nil) is recognised on the relevant goodwill in respect of the current year, which arose from the expected decline in the Group is participation in these lottery-related services due to keen competition.

20. GOODWILL – continued

Internet-plus solution services

The recoverable amount of the CGU has been determined based on value in use calculation using future cash flow projection of the CGU, by reference to the valuation performed by an independent valuer. The revenue is forecasted to be increased by 38.7%, 20%, 10% 8% and 5% for the first, second, third, fourth and fifth years respectively. The key assumptions for the value in use calculation are discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Discount rates adopted for the cash flow projection are in the range of 12.11 to 14.88%. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU. The operating margin and growth rate within the five-year period have been based on management expectation.

Management of the Group believe that any reasonably possible change in the key assumptions would not cause the carrying amount of the CGU of internet plus solution services to significantly exceed its recoverable amount.

Based on the value in use of the CGUs of internet-plus solution services which is estimated to be HK$38,752,000, impairment loss accounting to HK$19,184,000 (2018: HK$Nil) is recognised on the relevant goodwill in respect of the current year, which arose from the loss of senior personnel causing decline in revenue.

Internet-plus supply chain services

The recoverable amount of this group of CGUs has been determined based on a value in use calculation using the future cash flow projection of the CGU, by reference to the valuation performed by an independent valuer. The revenue of the CGU adopted for the preparation of the cash flow projections is forecasted using the estimated revenue for the first year and to be increased by 7% per annum for the following four years.

The key assumptions for the value in use calculation are discount rates, growth rates and expected changes to selling prices and direct cost. Management estimates discount rates using pre-tax rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Changes in selling prices and direct costs are based on past practices and expectations of future changes in market.

Discount rates adopted for the cash flow projection are 12.49%. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU. The operating margin and growth rate within the five-year period have been based on management expectation.

Management of the Group believe that any reasonably possible change in the key assumptions would not cause the carrying amount of the CGU of internet plus supply chain services to exceeds its recoverable amount.

Based on the value in use of the CGUs of internet-plus supply chain services which is estimated to be HK$128,192,000, no impairment is recognized on the relevant goodwill in respect in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. INTANGIBLE ASSETS

	Research and development HK$'000	Computer software HK$'000	Service contracts HK$'000	Intellectual property right HK$'000	LED deployment contract HK$'000	Total HK$'000
COST						
At 1 July 2017	248	3,170	8,757	5,756	3,569	21,500
Acquisition of subsidiaries *(note 36)*	—	—	19,715	—	—	19,715
Disposals	(255)	—	(482)	—	(3,674)	(4,411)
Exchange realignment	7	90	258	170	105	630
At 30 June 2018 and at 1 July 2018	—	3,260	28,248	5,926	—	37,434
Exchange realignment	—	(126)	(339)	(236)	—	(701)
At 30 June 2019	**—**	**3,134**	**27,909**	**5,690**	**—**	**36,733**
AMORTISATION						
At 1 July 2017	—	3,088	3,597	2,302	704	9,691
Charged for the year	—	22	6,663	1,204	—	7,889
Eliminated on disposals	—	—	(290)	—	(725)	(1,015)
Exchange realignment	—	89	79	49	21	238
At 30 June 2018 and at 1 July 2018	—	3,199	10,049	3,555	—	16,803
Charged for the year	—	22	8,224	1,149	—	9,395
Exchange realignment	—	(125)	(218)	(152)	—	(495)
At 30 June 2019	**—**	**3,096**	**18,055**	**4,552**	**—**	**25,703**
IMPAIRMENT						
At 1 July 2017	248	—	187	—	2,865	3,300
Eliminated on disposals	(255)	—	(193)	—	(2,939)	(3,387)
Exchange realignment	7	—	6	—	74	87
At 30 June 2018 and 1 July 2018	—	—	—	—	—	—
Impairment loss recognised for the year	—	—	1,653	1,147	—	2,800
Exchange realignment	—	—	(14)	(9)	—	(23)
At 30 June 2019	**—**	**—**	**1,639**	**1,138**	**—**	**2,777**
CARRYING AMOUNTS						
At 30 June 2019	**—**	**38**	**8,215**	**—**	**—**	**8,253**
At 30 June 2018	—	61	18,199	2,371	—	20,631

21. INTANGIBLE ASSETS – continued

Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. The estimated useful lives are as follows:

Research and development	5 years
Computer software	5 years
Service contracts	3–5 years
Intellectual property right	5 years
LED development contract	5 years

The carrying amounts of computer software and services contracts will be amortised over their remaining useful lives of 3 years and 2 years respectively (2018: 4 years and 3 years respectively).

In view of the change of the government policy in lottery market, management is of the view that the underlying value of certain service contracts and intellectual property right owned by the subsidiary has significantly declined. Impairment loss recognised on these intangible assets in respect of year amounted to HK$2,800,000 (Year ended 30–6-2018: HK$Nil).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Financial assets at fair value through other comprehensive income		Available-for-sale financial assets	
	30–6–2019 HK$'000	30–6–2018 HK$'000	**30–6–2019 HK$'000**	30–6–2018 HK$'000
Securities listed in Hong Kong				
— At fair value	**—**	—	**—**	—
— At cost less impairment	**—**	—	**—**	—
	—	—	**—**	—
Unlisted investment in the PRC				
— At fair value	**—**	—	**—**	—
— At cost less impairment	**—**	—	**—**	—
	—	—	**—**	—
	—	—	**—**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. INTERESTS IN JOINT VENTURES

	30-6-2019 **HK$'000**	30-6-2018 HK$'000
Cost of investments in unlisted joint ventures	**47,860**	47,860
Share of post acquisition profits less losses of joint ventures	**(39,457)**	(39,457)
Exchange realignment	**(15)**	16
	8,388	8,419
Amounts due from joint ventures	**6,509**	6,779
Impairment loss recognised	**(14,927)**	(14,927)
Exchange realignment	**30**	(271)
	—	—

The amounts due from joint ventures are unsecured, interest free and have no fixed repayment term.

Details of the joint ventures as at 30 June 2019 are as follows:

Name	**Form of business structure**	**Place of establishment and operation**	**Class of capital**	**Proportion of nominal value of registered capital held by the Group**		**Principal activities**
				Directly	**Indirectly**	
北京中文發數字科技有限公司 (China Culture Development Digital Technology Co., Ltd.) ("**China Culture**")	Sino-foreign equity joint venture	PRC	Registered	49%	—	Research and development of software and information technology products; system integrations; technology consultancy and other services
重慶禮光博軟科技發展有限公司 (Chongqing Lightsoft Technology Development Co., Ltd.) ("**Chongqing Lightsoft**")	Limited liability company	PRC	Registered	—	55%	Development of software, and trading of computer hardware

Chongqing Lightsoft is a 55% owned subsidiary of China Culture.

23. INTERESTS IN JOINT VENTURES – continued

Summarised consolidated statement of financial position of China Culture and its subsidiary, Chongqing Lightsoft, and reconciliation of the carrying amount of interests in joint ventures recognised in the consolidated financial statements are as follows:

	30-6-2019 HK$'000	30-6-2018 HK$'000
Current assets	**50,598**	52,697
Non-current assets	**3,600**	953
Current liabilities	**(13,860)**	(14,434)
Translation reserve	**(15,902)**	(20,569)
Other reserve	**(7,317)**	(1,465)
	17,119	17,182
Reconciled to the Group's interests in the joint venture:		
Gross amounts of the joint venture's net assets	**17,119**	17,182
Group's effective interest	**49%**	49%
Carrying amounts of interests in joint venture	**8,388**	8,419

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Revenue	**—**	—
Other income	**—**	55
Profit for the year	**—**	55
Profit for the year attributable to:		
Equity holders of China Culture	**—**	32
Non-controlling interests	**—**	23
	—	55
Group's share of profit of the joint venture		
— recognised	**—**	—
— unrecognised	**—**	16
	—	16

Note: The share of results of the joint ventures for the year has not been recognised in the consolidated financial statements as the directors consider that the joint ventures are inactive during the year and it is appropriate to recognise impairment loss in full against the cost at the Group's investments in and amounts due from joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. INVENTORIES

	30-6-2019 HK$'000	30-6-2018 HK$'000
Raw materials and consumables	47	66
Finished goods	113	402
	160	468

25. TRADE RECEIVABLES

	30-6-2019 HK$'000	30-6-2018 HK$'000
Trade receivables	88,183	76,920
Less: Provision for doubtful receivables	(68,208)	(69,020)
Trade receivables, net of provision	19,975	7,900

Payment terms of trade debts are mainly on credit. Invoices are normally payable within 30 to 180 days from invoice date. The following is an aged analysis of trade receivables at the end of the reporting period:

	30-6-2019 HK$'000	30-6-2018 HK$'000
0 to 30 days	16,270	3,525
31 to 60 days	1,073	1,792
61 to 180 days	2,752	1,541
181 to 365 days	—	68
Over one year	68,088	69,994
	88,183	76,920

The trade receivables with the carrying amount of HK$16,270,000 (30-6-2018: HK$Nil) are neither past due nor impaired at the end of the reporting period.

The Group has policies for allowances of doubtful receivables which are based on the evaluation of collectability and age analysis of accounts and on the management's judgement including the credit worthiness, collaterals and the past collection history of each customer.

For the year ended 30 June 2019, the Group made an allowance of HK$213,000 (Year ended 30-6-2018: HK$Nil) in respect of trade receivables, which was past due at the reporting date with long age and slow repayments were received from respective customers since the due date.

25. TRADE RECEIVABLES – continued

Movements in the provision for doubtful receivables are as follows:

	30-6-2019 HK$'000	30-6-2018 HK$'000
Balance at the beginning of the year	**69,020**	66,833
Provision for doubtful receivables for the year	**213**	—
Eliminated on disposal of a subsidiary	**—**	(248)
Exchange realignment	**(1,025)**	2,435
Balance at the end of the year	**68,208**	69,020

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted. The trade receivables past due but not provided for were either settled after the end of the reporting period or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated.

Included in the Group's trade receivables are receivables with the aggregate carrying amount of HK$3,642,000 (30-6-2018: HK$4,375,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amount are still considered recoverable. The Group does not hold any collateral over these balances. The aging of these overdue trade receivables but not impaired is as follows:

	30-6-2019 HK$'000	30-6-2018 HK$'000
0 to 30 days	**807**	—
31 to 60 days	**2,743**	1,792
61 to 180 days	**—**	1,541
181 to 365 days	**—**	68
Over one year	**92**	974
	3,642	4,375

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30-6-2019 HK$'000	30-6-2018 HK$'000
Other receivables	26,602	23,902
Less: Provision for doubtful receivables	(16,420)	(17,265)
Other receivables, net of provision	10,182	6,637
Deposits paid	15,608	17,512
Less: Provision for doubtful recovery	(11,852)	(12,668)
Deposits paid, net of provision	3,756	4,844
Prepayments	571	2,118
	14,509	13,599

Movements in provision for other receivables are as follows:

	30-6-2019 HK$'000	30-6-2018 HK$'000
Balance at the beginning of the year	17,265	10,090
Provision for doubtful receivables for the year	—	8,436
Eliminated on disposal of subsidiaries	—	(1,781)
Exchange realignment	(845)	520
Balance at the end of the year	16,420	17,265

Included in other receivables, less provision, are the consideration receivable for disposal of subsidiaries and the amount due from a related company amounted to HK$2,500,000 (30-6-2018: HK$2,500,000) and HK$2,866,000 (30-6-2018: HK$2,791,000) respectively, which is unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – continued

Movements in provision for deposits paid are as follows:

	30-6-2019 HK$'000	30-6-2018 HK$'000
Balance at beginning of the year	**12,668**	12,290
Provision for doubtful receivables for the year	**—**	361
Exchange realignment	**(816)**	17
Balance at end of the year	**11,852**	12,668

27. BANK BALANCES AND CASH

	30-6-2019 HK$'000	30-6-2018 HK$'000
Cash and bank deposits denominated in:		
Hong Kong dollar	**2,274**	157
Renminbi ("**RMB**")	**4,366**	4,555
United States dollar	**6**	7
	6,646	4,719

Included in the bank balances are bank deposits amounted to HK$4,360,000 (30-6-2018: HK$4,292,000) which was denominated in RMB and placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

28. TRADE PAYABLES

An aged analysis of the Group's trade payables at the end of the reporting period, based on the date of goods and services received, is as follows:

	30-6-2019 HK$'000	30-6-2018 HK$'000
0 to 30 days	**2,898**	—
181 to 365 days	**—**	—
Over one year	**68**	250
	2,966	250

29. ACCRUALS AND OTHER PAYABLES

	30-6-2019 **HK$'000**	30-6-2018 HK$'000
Consideration for acquisition of subsidiaries payable *(Notes a)*	**22,000**	65,000
Amount due to non-controlling interest *(Note b)*	**15,334**	15,334
Interest on convertible bonds payable	**3,246**	6,832
Sundry payables and accrued charges	**8,657**	13,162
	49,237	100,328

Notes:

(a) The consideration for acquisition of subsidiaries payable is unsecured and interest free.

During the current year, the Group reached an agreement with the vendor under the acquisition which took place in September 2017, under which the consideration payable was revised from HK$65,000,000 to HK$22,000,000 to be settled on or before 5 June 2020 with no change in other terms regarding the acquisition. Accordingly, the reduction in consideration for acquisition amounted to HK$43,000,000 was written back in profit or loss in respect of the current year (year ended 30-6-2018: HK$2,560,000) and included in other income and gains (Note 11).

(b) The amount due to non-controlling interest is unsecured, interest free and repayable on demand.

30. AMOUNTS DUE TO DIRECTORS

	30-6-2019 **HK$'000**	30-6-2018 HK$'000
Amounts due to:		
— Madam Cheung Kwai Lan	**39,754**	34,639
— Mr. Chan Ting	**7,895**	5,142
	47,649	39,781

The amounts due to directors are unsecured, interest free and have no fixed repayment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. OBLIGATIONS UNDER FINANCE LEASES

The Group leased a motor vehicles under finance lease. The average lease term is four years (30-6-2018: four years). Interest rates on the lease is fixed at 3.13% per annum. The Group has option to purchase the motor vehicle for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	30-6-2019 HK$'000	30-6-2018 HK$'000	**30-6-2019 HK$'000**	30-6-2018 HK$'000
Within one year	**151**	202	**150**	194
In the second to fifth year inclusive	**—**	151	**—**	150
	151	353		
Less: future finance charges	**(1)**	(9)		
Present value of lease obligations	**150**	344	**150**	344
Less: amount due within one year shown under current liabilities			**(150)**	(194)
Amount due after one year			**—**	150

32. CONVERTIBLE BONDS

	30-6-2019 HK$'000	30-6-2018 HK$'000
Convertible bonds:		
— Liability component	**89,345**	89,413
— Derivative conversion option component	**10**	260
Classified under current liabilities:		
— Convertible bonds	**89,345**	89,413
— Derivative financial liabilities	**10**	260

32. CONVERTIBLE BONDS – continued

(a) 2% Coupon Bonds Due 2017 ("**2% Bonds**")

On 17 January 2014, the Company issued the 2% Bonds due on 17 January 2017 with a principal amount of HK$89,625,000, which is interest bearing at a rate of 2% per annum, as a general working capital and repayment of borrowings. The Bonds are convertible into ordinary shares of the Company with a conversion price of HK$2.39 per share. As a result of the share subdivision implemented on 17 December 2014, the number of the shares to be issued upon full conversion of the 2% Bonds was adjusted to 150,000,000 shares at the conversion price of HK$0.598 per share.

The 2% Bonds contain liability and equity components. The effective interest rate of the liability component is 13.89% per annum. The equity component is presented under the equity heading of "convertible bonds reserve".

The fair value of the liability component of the 2% Bonds at the issue date was valued by an independent valuer determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

Detail of principal valuation parameters have been applied in determining the liability component and equity component was summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	2% per annum
(c)	Maturity date:	17 January 2017
(d)	Conversion price:	HK$2.39
(e)	Risk-free rate:	0.687%
(f)	Expected volatility:	70.45%
(g)	Expected dividend yield:	0%

(b) 8% Bonds July 2017

On 18 January 2017, the Company entered into an amendment agreement with the bondholder to amend certain terms and conditions of 2% Bonds. The conversion price shall be the same of HK$0.359 per share and it can be converted into for the maximum of 249,651,810 shares. The maturity date shall be extended to 17 July 2017 and a further six months extension to 17 January 2018 upon a written consent from the bondholder. The interest rate shall be 8% per annum and paid semi-annually from the date of the amendment agreement.

The revised 2% Bonds (the "**8% Bonds July 2017**") contain liability and equity components. The effective interest rate of the liability component is 16.32% per annum. The equity component is presented under the equity heading of "convertible bonds reserve".

32. CONVERTIBLE BONDS – continued

(b) 8% Bonds July 2017 – continued

The fair value of the liability component of the 8% Bonds July 2017 at the date of its amendments was valued by an independent valuer determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

Detail of principal valuation parameters have been applied in determining the liability component and equity component was summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	8% per annum
(c)	Maturity date:	17 July 2017
(d)	Conversion price:	HK$0.359
(e)	Risk-free rate:	0.771%
(f)	Expected volatility:	89.30%
(g)	Expected dividend yield:	0%

(c) 8% Bonds January 2018

On 17 July 2017, the Company obtained written consent from the bondholder, under which the maturity date of the 8% Bonds July 2017 was extended to 17 January 2018 with other terms and conditions remained unchanged.

The revised 8% Bonds July 2017 (the "**8% Bonds January 2018**") contain liability and equity components. The effective interest rate of the liability component is 16.32% per annum. The equity component is presented under the equity heading of "convertible bonds reserve".

The fair value of the liability component of the 8% Bond January 2018 at the date of its amendments was valued by management based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

Detail of principal valuation parameters have been applied in determining the liability component and equity component was summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	8% per annum
(c)	Maturity date:	17 January 2018
(d)	Conversion price:	HK$0.359
(e)	Risk-free rate:	0.771%
(f)	Expected volatility:	89.30%
(g)	Expected dividend yield:	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. CONVERTIBLE BONDS – continued

(d) 8% Bonds July 2018

On 18 January 2018, the Company entered into a second amendment agreement with the bondholder, under which the maturity date of the bonds was extended to 17 July 2018 and interest is payable at the interest rate 8% per annum up to the maturity date, with other terms and conditions remained unchanged.

Following the change of the functional currency of the Company for the year ended 30 June 2018, the revised 8% Bonds January 2018 (the "**8% Bonds July 2018**") contain liability and conversion option derivative components. The effective interest rate of the liability component is 13.37% per annum.

The fair value of the liability component and conversion option derivative component of the 8% Bonds July 2018 at the date of its amendments and at the end of the reporting period was valued by an independent valuer based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan. Detail of principal valuation parameters have been applied in determining the liability component and conversion option derivative component was summarised as follows:

		At date of amendment	At 30-6-2018
(a)	Principal amount:	HK$89,625,000	HK$89,625,000
(b)	Coupon rate:	8% per annum	8% per annum
(c)	Maturity date:	17 July 2018	17 July 2018
(d)	Conversion price:	HK$0.359	HK$0.359
(e)	Risk-free rate:	0.812%	1.470%
(f)	Expected volatility:	94.04%	37.30%
(g)	Expected dividend yield:	0%	0%

(e) 8% Bonds January 2019

On 17 July 2018, the Company obtained written consent from the bondholder, under which the maturity date of the 8% Bonds July 2018 was extended to 17 January 2019 with other terms and conditions remained unchanged.

The revised 8% Bonds July 2018 (the "**8% Bonds January 2019**") contain liability and conversion option derivative components. The effective interest rate of the liability component is 13.36% per annum.

The fair value of the liability component of the 8% Bond January 2019 at the date of its amendments was valued by management based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. CONVERTIBLE BONDS – continued

(e) 8% Bonds January 2019 – continued

Detail of principal valuation parameters have been applied in determining the liability component and equity component was summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	8% per annum
(c)	Maturity date:	17 January 2019
(d)	Conversion price:	HK$0.359
(e)	Risk-free rate:	0.771%
(f)	Expected volatility:	89.30%
(g)	Expected dividend yield:	0%

(f) 8% Bonds July 2019

On 18 January 2019, the Company entered into a third amendment agreement with the bondholder, under which the maturity date of the bonds was extended to 17 July 2019 and interest is payable at the interest rate 8% per annum up to the maturity date, with other terms and conditions remained unchanged.

The revised 8% Bonds January 2019 (the "**8% Bonds July 2019**") contain liability and conversion option derivative components. The effective interest rate of the liability component is 15.12% per annum.

The fair value of the liability component and conversion option derivative component of the 8% Bonds July 2019 at the date of its amendments and at the end of the reporting period was valued by an independent valuer based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan. Detail of principal valuation parameters have been applied in determining the liability component and conversion option derivative component was summarised as follows:

		At date of amendment	**At 30-6-2019**
(a)	Principal amount:	HK$89,625,000	HK$89,625,000
(b)	Coupon rate:	8% per annum	8% per annum
(c)	Maturity date:	17 July 2019	17 July 2019
(d)	Conversion price:	HK$0.359	HK$0.359
(e)	Risk-free rate:	1.404%	0.931%
(f)	Expected volatility:	93.37%	98.49%
(g)	Expected dividend yield:	0%	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. CONVERTIBLE BONDS – continued

Movements of the convertible bonds for the years are set out below:

	Liability component							
	8% Bonds July 2017 HK$'000	8% Bonds January 2018 HK$'000	8% Bonds July 2018 HK$'000	8% Bonds January 2019 HK$'000	8% Bonds July 2019 HK$'000	Total HK$'000	Derivative component HK$'000	Equity component HK$'000
At 1 July 2017	89,301	—	—	—	—	89,301	—	2,672
Movements during the period from 1 July 2017 to 17 July 2017								
Imputed interest charge	662	—	—	—	—	662	—	—
Interest paid	(338)	—	—	—	—	(338)	—	—
Arose from amendment of terms of convertible bonds, net of tax effects	(89,625)	86,425	—	—	—	(3,200)	—	—
Movements during the period from 18 July 2017 to 17 January 2018								
Imputed interest charge	—	6,785	—	—	—	6,785	—	—
Interest paid	—	(3,585)	—	—	—	(3,585)	—	—
Arose from second amendment of terms of convertible bonds, net of tax effects	—	(89,625)	87,544	—	—	(2,081)	2,081	(2,672)
Movements during the period from 18 January 2018 to 30 June 2018				—	—			
Imputed interest charge for the year	—	—	5,116	—	—	5,116	—	—
Interest paid	—	—	(3,247)	—	—	(3,247)	—	—
Fair value gain on derivative financial liabilities *(Note 11)*	—	—	—	—	—	—	(1,821)	—
At 30 June 2018	—	—	89,413	—	—	89,413	260	—
Movements during the period from 1 July 2018 to 17 July 2018								
Imputed interest charge	**—**	**—**	**551**	**—**	**—**	**551**	**—**	**—**
Interest paid	**—**	**—**	**(339)**	**—**	**—**	**(339)**	**—**	**—**
Arose from amendment of terms of convertible bonds, net of tax effects	**—**	**—**	**(89,625)**	**87,544**	**—**	**(2,081)**	**2,081**	**—**
Movements during the period from 18 July 2018 to 17 January 2019								
Imputed interest charge	**—**	**—**	**—**	**5,670**	**—**	**5,670**	**—**	**—**
Interest paid	**—**	**—**	**—**	**(3,589)**	**—**	**(3,589)**	**—**	**—**
Arose from third amendment of terms of convertible bonds, net of tax effects	**—**	**—**	**—**	**(89,625)**	**86,874**	**(2,751)**	**2,751**	**—**
Movements during the period from 18 January 2019 to 30 June 2019	**—**	**—**						
Imputed interest charge for the year	**—**	**—**	**—**	**—**	**5,721**	**5,721**	**—**	**—**
Interest paid/payable included in accruals and other payables	**—**	**—**	**—**	**—**	**(3,250)**	**(3,250)**	**—**	**—**
Fair value gain on derivative financial liabilities *(Note 11)*	**—**	**—**	**—**	**—**	**—**	**—**	**(5,082)**	**—**
At 30 June 2019	**—**	**—**	**—**	**—**	**89,345**	**89,345**	**10**	**—**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. DEFERRED TAX LIABILITIES

	30-6-2019 **HK$'000**	30-6-2018 HK$'000
Deferred tax liabilities classified under non-current liabilities	**2,053**	3,697

Movements of the deferred tax liabilities are as follows:

	Business combination HK$'000	**Convertible bonds** HK$'000	**Total** HK$'000
At 1 July 2017	—	54	54
Acquisition of subsidiaries *(note 36)*	4,929	—	4,929
Deferred tax recognised on equity component of convertible bonds	—	528	528
Deferred tax credited to profit or loss *(note 16)*	(1,232)	(582)	(1,814)
At 30 June 2018 and 1 July 2018	3,697	—	3,697
Deferred tax credited to profit or loss *(note 16)*	(1,644)	—	(1,644)
At 30 June 2019	**2,053**	**—**	**2,053**

At the end of the reporting period, the Group has unused tax losses of approximately HK$120,373,000 (30-6-2018: HK$114,584,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams. Included in unused tax losses are losses of approximately HK$50,016,000 (30-6-2018: HK$44,227,000) that will expire within one to five years from the end of the reporting period. Other losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. SHARE CAPITAL

	Number of shares '000	Nominal amounts HK$'000
Ordinary shares of HK$0.0125 each		
Authorized:		
At 1 July 2017, 30 June 2018, 1 July 2018 and 30 June 2019	16,000,000	200,000
Issued and fully paid:		
At 30 June 2017, 1 July 2017 and 30 June 2018	3,290,855	41,135
Shares issued upon placement of shares *(Note a)*	168,000	2,100
Shares issued upon acquisition of subsidiaries *(Note b)*	650,000	8,125
At 30 June 2019	4,108,855	51,360

Notes:

(a) Pursuant to the placing agreement dated 1 January 2019, the Company allotted and issued an aggregate of 168,000,000 new ordinary shares of the Company on 22 January 2019 at a price of HK$0.238 each.

(b) On 10 May 2019, 650,000,000 new ordinary shares were issued for the acquisition of subsidiaries (note 36).

35. SHARE OPTION SCHEME

The Company has adopted a new share option scheme on 31 January 2013 which will remain valid for a period of 10 years commencing from 31 January 2013. The Board may, at its discretion, invite eligible persons to take up options to subscribe for the shares in the Company. Eligible persons shall include any employee, directors (including executive, non-executive and independent non-executive directors) and consultants of the Company or of any subsidiary of the Company or such other persons who at the sole determination of the Board have contributed to the Group at the time when an option is granted to such person.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted to each eligible participant (included both exercised and outstanding options) in any 12 month period must not exceed 1% of the total issued share capital of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to Shareholder's approval in a general meeting.

Share options do not confer rights on the holders to dividends or to vote at Shareholders' meetings. The Group recognized the total expenses of approximately HK$Nil for the year ended 30 June 2019 (Year ended 30-6-2018: approximately HK$25,000) in relation to share options granted by the Company.

35. SHARE OPTION SCHEME – continued

The maximum number of shares of the Company which may be issued upon exercise of all the outstanding options granted and yet to be issued under the Share Option Scheme or any other schemes must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time.

The exercise price of the share options is determinable by the directors, and may not be less than the highest of:

(i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day;

(ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share of the Company.

During the years ended 30 June 2019 and 30 June 2018, no share options were granted by the Company. Details of the share options granted, exercised, cancelled and lapsed during both of the years presented are set out as follows:

Year ended 30 June 2019

				Number of share options					
Grantee	Grant date	Exercise price per share HK$	Exercisable period	Balance as at 1 July 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2019
Other Eligible	21/07/2015	1.280	01/07/2016 — 30/06/2019	10,000,000	—	—	—	(10,000,000)	—
Participants*	21/07/2015	1.280	01/01/2017 — 30/06/2019	10,000,000	—	—	—	(10,000,000)	—
			Total	20,000,000	—	—	—	(20,000,000)	—

* Other Eligible Participants include certain employees, business partners and consultants of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. SHARE OPTION SCHEME – continued

Year ended 30 June 2018

				Number of share options					
Grantee	Grant date	Exercise price per share HK$	Exercisable period	Balance as at 1 July 2017	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2018
Other Eligible Participants*	21/07/2015	1.280	01/07/2016 — 30/06/2019	540,000	—	—	—	(540,000)	—
	21/07/2015	1.280	01/01/2017 — 30/06/2019	540,000	—	—	—	(540,000)	—
	21/07/2015	1.280	01/01/2018 — 30/06/2019	720,000	—	—	—	(720,000)	—
	13/06/2014	0.952	01/07/2015 — 30/06/2018	936,000	—	—	—	(936,000)	—
	13/06/2014	0.952	01/07/2016 — 30/06/2018	936,000	—	—	—	(936,000)	—
	13/06/2014	0.952	01/07/2017 — 30/06/2018	1,248,000	—	—	—	(1,248,000)	—
	13/06/2014	0.952	01/07/2015 — 30/06/2018	20,100,000	—	—	—	(20,100,000)	—
	13/06/2014	0.952	01/07/2016 — 30/06/2018	20,100,000	—	—	—	(20,100,000)	—
	21/07/2015	1.280	01/07/2016 — 30/06/2019	10,000,000	—	—	—	—	10,000,000#
	21/07/2015	1.280	01/01/2017 — 30/06/2019	10,000,000	—	—	—	—	10,000,000#
			Total	65,120,000	—	—	—	(45,120,000)	20,000,000

* Other Eligible Participants include certain employees, business partners and consultants of the Group.

In prior years, 20,000,000 share options were granted to certain eligible participants subject to satisfactory performance to be provided by the eligible participants. Such eligible participants subsequently failed to perform their obligations as required by the Group and are not eligible to exercise the options. The share options remained uncancelled as at the end of the reporting period.

36. ACQUISITION OF SUBSIDIARIES

Year ended 30 June 2019

On 1 January 2019, a wholly owned subsidiary of the Company entered into an agreement to acquire 100% equity interest in Hero Global Holdings Limited ("**Hero Global**"), for a consideration which was satisfied by the issue of 650,000,000 at price HK$0.155 per share. The acquisition was completed on 6 May 2019 and Hero Global became wholly owned subsidiary of the Company thereafter. Hero Global and its subsidiaries are principally engaged in the provision of internet plus solution and supply chain services and trading of goods through internet platform. In addition, a subsidiary of Hero Global entered into an agreement with the vendor, under which the subsidiary will render management services to the vendor for period of three years commencing from 12 November 2018 in return for annual services fee amounted to RMB28,000,000 payable to the subsidiary by the vendor. The acquisition of Hero Global is for the purpose of enabling the Group to expand its business portfolio.

Pursuant to the sale and purchase agreement, the vendor warranted to the Group that (i) the actual net profit after taxation of Hero Global for each of the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$23,000,000, HK$23,000,000 and HK$23,000,000 respectively; or (ii) the aggregate net profit for the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$69,000,000 in total ("**guaranteed profit**"). If the aggregate net profit for the three years ending 31 December 2019, 2020 and 2021 is less than the guaranteed profit, the vendor shall compensate the Group the shortfall multiplied by a compensation factor of 1.7 in cash.

Before the completion of the acquisition, 30% equity interest in a subsidiary of Hero Global, Sinopharm Health Cross border E-commerce Company Limited ("**Sinopharm Health**") was held by the Group, therefore Sinopharm Health was regarded on associate of the Group before the acquisition.

The acquisition has been accounted for by using the acquisition method of accounting.

Acquisition related costs amounted to approximately HK$300,000 have been excluded from the cost of acquisition and have been recognised directly as an expense and included in the "administrative and operating expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognized at the date of acquisition

	HK$'000
Trade receivables	2,588
Other receivables, deposits & prepayments	560
Bank balances and cash	10
Accruals and other payables	(3,433)
	(275)

The fair value of trade and other receivables of the acquired entities at the date of acquisition amounted to HK$3,148,000 which represented the gross contractual amounts at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. ACQUISITION OF SUBSIDIARIES – continued

Goodwill arising from acquisition

	HK$'000
Consideration for the acquisition, satisfied by issue of shares *(note i)*	**100,750**
Plus: Fair value gain on investment in associates *(note ii)*	**17,375**
Plus: Recognised amount of identified net liabilities acquired	**275**
Goodwill arising on acquisition	**118,400**

Notes:

(i) The consideration for the acquisition is calculated based on the closing share price of the Company's shares at the date of completion of the acquisition.

(ii) The fair value of 30% equity interest in the associate (Sinopharm Health) at the date of acquisition was estimated to be HK$17,375,000, which was valued by independent valuer on income approach, discount cash flow based on the financial projections prepared by the management of Hero Global covering a 5-year period, and the discount rate of approximately 12.49% that reflects current market assessment of the time value of money and the risk specific to Hero Global. Cash flows beyond 5-year period have been extrapolated using a steady 2.5% growth rate. The excess of fair value over the insignificant carrying amount of such equity interest, amounted to HK$17,375,000 was recognized in profit or loss in respect of the current year and included in other income and gains.

(iii) Management is of the view that it is unlikely that the aforementioned profit guarantee given by the vendor will be ultimately materialised, accordingly the fair value of the profit guarantee is minimal and is not recognised.

Goodwill in the acquisition because the cost of combination included a control premium addition, the consideration for the acquisition effectively included amounts in relation to benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purpose.

Net cash inflow arising on acquisition of subsidiaries

	HK$'000
Bank balances and cash acquired	**10**

Impact of acquisition on the results of the Group

Included in the Group's revenue and loss for the year ended 30 June 2019 were revenue of HK$13,423,000 and profit of HK$487,000 respectively attributable to Hero Global and its subsidiaries.

Had the acquisitions of Hero Global been effected at the beginning of the year ended 30 June 2019, the revenue of the Group in the year ended have been HK$46,091,000 and the loss for the year ended have been HK$45,866,000. The proforma information is in illustrative purposes only and is not necessarily on indication of revenue and results of operation of the Group that actually would have been achieved. Had the acquisition been completed at the beginning of the year ended 30 June 2019, nor is it intended to be projection of future results.

36. ACQUISITION OF SUBSIDIARIES – continued

Impact of acquisition on the results of the Group – continued

Year ended 30 June 2018

On 29 September 2017, a wholly-owned subsidiary of the Company entered into an agreement to acquire 51% equity interest in Champion Vision Global Limited ("**Champion Vision**") for a consideration of HK$65,000,000. Champion Vision is an investment holding company and, through its subsidiaries, including Qianhai Chudao Technology (Shenzhen) Limited, are principally engaged in the provision of internet plus solution services. The acquisition was completed on 29 September 2017 and was accounted for using the acquisition method of accounting. The subsidiaries were acquired so as to enable the Group to explore its business in provision of internet related services.

Acquisition-related costs amounted to approximately HK$120,000 have been excluded from the cost of acquisition and have been recognised directly as an expense and included in the "administrative and operating expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

The acquisition has been accounted for by using the acquisition method of accounting.

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Property, plant and equipment	271
Intangible assets	19,715
Trade receivables	67
Other receivables, deposits and prepayments	802
Bank balances and cash	247
Accruals and other payables	(9,385)
Deferred tax liabilities	(4,929)
	6,788

The fair values of trade receivables of Champion Vision and its subsidiaries at the date of acquisition amounted to approximately HK$67,000, which represented the gross contractual amounts at the date of acquisition.

The fair value of the intangible assets at the date of acquisition was valued by an independent professional valuer, using the discounted cash flow method to arrive at the present value of the expected future economic benefits that will flow to the Group arising from these intangible assets. The inputs to the model are as follows:

Risk-free rate	3.62%
Discount rate	16.50%
Expected useful lives	3 years

36. ACQUISITION OF SUBSIDIARIES – continued

Goodwill arising from acquisition

	HK$'000
Cash consideration payable	65,000
Plus: Non-controlling interests	3,326
Less: Recognised amount of identified net assets acquired	(6,788)
Goodwill arising on acquisition	61,538

Goodwill arose in the acquisition because the cost of combination included a control premium addition, the consideration for the acquisition effectively included amounts in relation to benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purpose.

Non-controlling interests

The non-controlling interests in Champion Vision recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of Champion Vision.

Net cash inflow arising on acquisition of subsidiaries

	HK$'000
Cash consideration paid	—
Bank balances and cash acquired	247
Net cash inflow on acquisition	247

The consideration payable amounted to HK$65,000,000 was included in accruals and other payables (Note 29).

Impact of acquisition on the results of the Group

Included in the Group's revenue and loss for the year ended 30 June 2018 were revenue of HK$1,443,000 and loss of HK$6,861,000 respectively attributable to Champion Vision and its subsidiaries.

Had the acquisition of Champion Vision been effected at the beginning of the year ended 30 June 2018, the revenue of the Group for that year would have been HK$25,610,000, and the loss for that year would have been HK$78,060,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year ended 30 June 2018, nor is it intended to be a projection of future results.

37. DISPOSAL OF SUBSIDIARIES

Year ended 30 June 2018

On 18 October 2017, the Group disposed of 100% equity interest in United Power Asia Investment Limited ("**United Power**") for a cash consideration of HK$2,500,000. United Power is an investment holding company and, through its subsidiaries including 51% equity interest in Anhui Ao Cai Information Technology Limited ("**Anhui Ao Cai**") (Note 45(b)), was principally engaged in the provision of lottery-related services.

Consideration receivable

	HK$'000
Consideration in cash	2,500

Analysis of assets and liabilities at the date of disposal over which control was lost

	HK$'000
Non-current assets	
Property, plant and equipment	2,894
Current assets	
Trade receivables	1,368
Other receivables, deposits and prepayments	616
Amounts due from group companies	14,656
Bank balances and cash	168
Current liabilities	
Trade payables	(907)
Amounts due to group companies	(17,916)
Net assets disposed of	879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. DISPOSAL OF SUBSIDIARIES – continued

Gain on disposal of subsidiaries

	HK$'000
Consideration for disposal	2,500
Net assets disposed of	(879)
Non-controlling interests	4,943
Gain on disposal of subsidiaries recognised in profit or loss	6,564

In addition, in prior years the Group disposed of 49% equity interest in Anhui Ao Cai which resulted in a loss of HK$4,415,000 taken to the capital reserve. Such loss, upon the completion of the disposal of United Power by the Group, was transferred to the accumulated losses during the year.

Net cash outflow arising from disposal

	HK$'000
Consideration for disposal received	—
Less: Bank balances and cash disposed of	(168)
Net cash outflow arising from disposal	(168)

The consideration receivable amounted to HK$2,500,000 was included in other receivables, deposits and prepayments (Note 26).

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payable (included in accruals and other payables) HK$'000	Convertible bonds HK$'000	Obligations under finance leases HK$'000	Amounts due to directors HK$'000	Total HK$'000
At 1 July 2017	3,246	89,301	532	15,076	108,155
Other non-cash changes	—	(5,281)	—	—	(5,281)
Finance costs	7,188	5,393	—	—	12,581
Financing cash (outflows)/inflows	(3,602)	—	(188)	24,705	20,915
At 30 June 2018 and 1 July 2018	**6,832**	**89,413**	**344**	**39,781**	**136,370**
Other non-cash changes	**—**	**(4,833)**	**—**	**—**	**(4,833)**
Finance costs	**7,177**	**4,765**	**—**	**—**	**11,942**
Financing cash (outflows)/inflows	**(10,763)**	**—**	**(194)**	**7,868**	**(3,089)**
At 30 June 2019	**3,246**	**89,345**	**150**	**47,649**	**140,390**

39. MAJOR NON-CASH TRANSACTIONS

During the year, the Group acquired the 100% equity interest in Hero Global (30% equity interest of a subsidiary of Hero Global, Sinopharm Health Cross border E-commerce Company Limited was held by the Group), the consideration for the acquisition is satisfied by the issue of new shares, details of which are set out in Note 36.

During the year, the Group incurred imputed interest on convertible bonds of HK$4,764,000 (Year ended 30-6-2018: HK$5,393,000).

During the year, the Group incurred share-based payment expenses for the share option granted of HK$Nil (Year ended 30-6-2018: HK$25,000).

40. OPERATING LEASE COMMITMENTS

The Group as lessee

As at 30 June 2019, the Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	30-6-2019 HK$'000	30-6-2018 HK$'000
Within one year	**1,772**	1,858
In the second to fifth years inclusive	**211**	184
	1,983	2,042

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for an average terms of 1 to 5 years.

41. CAPITAL COMMITMENTS

	30-6-2019 HK$'000	30-6-2018 HK$'000
Capital contribution to joint ventures contracted but not provided for	**—**	11,144

42. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The retirement benefits scheme contributions charged to the consolidated statement of profit or loss and other comprehensive income represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

The employees of the Group's subsidiaries that operated in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The total expenses recognised in profit or loss of HK$1,304,000 (Year ended 30-6-2018: approximately HK$4,102,000) represent contributions payable to the retirement benefit schemes in respect of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. SHARE AWARD SCHEME

On 24 January 2005, the Company adopted a share award scheme for employees and consultants, excluding executive directors and chief executive, of the Group for the purpose of recognising the contributions of certain employees and consultants of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate them and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity. Under the scheme, following the making of an award to employees and consultants, the relevant newly issued shares vest over a period of time provided that the employees and consultants continue to contribute to the Group at the relevant time and satisfies any other conditions specified at the time the award is made. The maximum aggregate number of shares that can be awarded under the scheme is limited to 20% of the issued share capital of the Company and no cash consideration should be paid for the shares allotted under the share award scheme.

No share award was granted during the year ended 30 June 2019 (Year ended 30-6-2018: Nil) and no share award remained outstanding on that date.

44. RELATED PARTY TRANSACTIONS

(a) Balances with related parties

(a) Amounts due to directors of HK$47,649,000 (30-6-2018: HK$39,781,000) are unsecured, interest free and have no fixed repayment terms.

(b) Included in other receivables is amount due from a related company of HK$2,866,000 (30-6-2018: HK$2,791,000). The amount is unsecured, interest free and has no fixed repayment terms. The Company's director, Madam Cheung Kwai Lan, is the member of committee of the related company.

(c) Included in other receivables are amounts due from subsidiaries of a joint venture of HK$1,135,000 (30-6-2018: HK$1,135,000). The amounts, which are unsecured, interest free and have no fixed repayment terms, are fully impaired.

(b) Compensation of directors and key management personnel

The remuneration of directors and other members of key management for the year were as follows:

	Year ended 30-6-2019 HK$'000	Year ended 30-6-2018 HK$'000
Short term benefits	**15,462**	14,701
Post-employment benefits	**71**	90
	15,533	14,791

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

(a) Particulars of the Company's principal subsidiaries as at 30 June 2019 are as follows:

Name	Place of incorporation and operation	Nominal value of issued and paid-up share	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
彩米(北京)科技有限公司# (Caimi (Beijing) Science and Technology Co., Ltd†) *(Note 2)*	PRC	Registered capital RMB25,593,290	—	50.79%	Provision of lottery-related services
Cheerfull Group Holdings Limited	BVI	Ordinary shares US$50,000	—	100%	Investment holding
China Success Enterprises Limited	BVI	Ordinary shares US$2,000	100%	—	Investment holding
China Vanguard Corporate Management Limited	Hong Kong	Ordinary shares HK$20,000,000	100%	—	Corporate management
黑龍江省博眾信息技術有限公司# (Heilongjiang Bozone IT Co. Limited†) *(Note 2)*	PRC	Registered capital RMB500,000	—	65%	Provision of lottery-related hardware and software systems
深圳市博眾信息技術有限公司# (Shenzhen Bozone IT Co. Limited†) *(Note 1)*	PRC	Registered capital RMB50,000,000	—	100%	Provision of lottery-related hardware and software systems
深圳市龍江風采信息技術有限公司# (Shenzhen Longjiang Fengcai IT Co. Limited†) *(Note 2)*	PRC	Registered capital RMB1,000,000	—	100%	Provision of lottery-related hardware and software systems
深圳生港餐飲管理有限公司# (Shenzhen Sheng-Gang Catering Investment Limited†) *(Note 2)*	PRC	Registered capital RMB100,000	—	100%	Food and catering services
深圳生港科技有限公司# (Shenzhen Sheng-Gang Technology Co. Limited†) *(Note 2)*	PRC	Registered capital US$6,809,751	100%	—	Investment holding
前海初道科技(深圳)有限公司# (Qianhai Chudao Technology (Shenzhen) Limited†) *(Note 2)*	PRC	Registered capital RMB5,000,000	—	51%	Provision of internet plus solution services
Hero Global Holdings Limited	BVI	Registered capital US$100	—	100%	Investment holding
Sinopharm Health Cross Border E-Commence Company Limited	Hong Kong	Registered capital HK$100	—	100%	Provision of internet plus solution services
Sinopharm (Hong Kong) Industrial Co., Limited	Hong Kong	Registered capital HK$1	—	100%	Provision of internet plus supply chain services

The statutory financial year end date of these subsidiaries is 31 December.

† For identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

(a) Particulars of the Company's principal subsidiaries as at 30 June 2019 are as follows: – continued

Notes:

1. Wholly-foreign-owned enterprises established under the law of the PRC.

2. A limited liability company established under the law of the PRC.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

Information about the composition of the Group at the end of reporting period is as follows:

Principal activity	**Place of incorporation and operation**	**Number of non-wholly owned subsidiaries** **30-6-2019**	30-6-2018
Provision of lottery-related services	PRC	**2**	6
Provision of internet plus solution services	PRC	**1**	1

Principal activity	**Place of incorporation and operation**	**Number of wholly owned subsidiaries** **30-6-2019**	30-6-2018
Provision of lottery-related services	PRC	**2**	6
Provision of internet plus solution services	Hong Kong and PRC	**1**	—
Provision of inherent plus supply chain services	Hong Kong and PRC	**1**	—

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

Name of subsidiary	Place of incorporation and operation	Proportion of ownership and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		30-6-2019	30-6-2018	**30-6-2019 HK$'000**	30-6-2018 HK$'000	**30-6-2019 HK$'000**	30-6-2018 HK$'000
安徽奧彩信息科技有限公司 (Anhui Ao Cai Information Technology Limited) *(note)*	PRC	**N/A**	N/A	**—**	(1,719)	**—**	—
Caimi (Beijing) Science and Technology Co., Ltd.	PRC	**49.21%**	49.21%	**(7)**	(77)	**(419)**	445
Champion Vision Global Limited	Samoa and PRC	**49%**	49%	**2,847**	(5,174)	**(444)**	(1,795)
Individual immaterial subsidiaries with non-controlling interests				**(1,670)**	(3,581)	**366**	743
Total				**1,170**	(10,551)	**(497)**	(607)

Note: This subsidiary was disposed of by the Group on 18 October 2017 (Note 37).

Summarized financial information in respect of each of the Group's subsidiaries that have material non-controlling interests are set out below. The summarised financial information below represents amount before intragroup elimination.

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests – continued

(i) Caimi (Beijing) Science and Technology Co., Ltd.

	30-6-2019 **HK$'000**	30-6-2018 HK$'000
Non-current assets	**—**	—
Current assets	**1,644**	1,723
Current liabilities	**(789)**	(819)
Non-current liabilities	**—**	—
Equity attributable to equity holders of the Company	**436**	459
Non-controlling interests	**419**	445

	Year ended **30-6-2019** **HK$'000**	Year ended 30-6-2018 HK$'000
Revenue	**—**	—
Expenses	**(14)**	(157)
Loss for the year	**(14)**	(157)
Loss attributable to equity holders of the Company	**(7)**	(80)
Loss attributable to non-controlling interests	**(7)**	(77)
	(14)	(157)
Net cash outflows from operating activities	**(20)**	(448)
Net cash inflows from investing activities	**1**	—
Net cash outflows from financing activities	**—**	—
Net cash outflows	**(19)**	(448)

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests – continued

(ii) Champion Vision Global Limited

	30-6-2019 HK$'000	30-6-2018 HK$'000
Non-current assets	**954**	19,164
Current assets	**10,743**	26,047
Current liabilities	**(10,550)**	(41,180)
Non-current liabilities	**(2,054)**	(3,697)
Equity attributable to equity holders of the Company	**(462)**	170
Non-controlling interests	**(444)**	164

	Year ended 30-6-2019 HK$'000	Period from 29-9-2017 to 30-6-2018 HK$'000
Revenue	**8,995**	1,447
Expenses	**(3,186)**	(12,006)
Profit/(loss) for the year/period	**5,809**	(10,559)
Profit/(loss) attributable to equity holders of the Company	**2,962**	(5,385)
Profit/(loss) attributable to non-controlling interests	**2,847**	(5,174)
	5,809	(10,559)
Net cash (outflows)/inflows from operating activities	**(121)**	19
Net cash inflows from investing activities	**—**	—
Net cash inflows from financing activities	**—**	—
Net cash (outflows)/inflows	**(121)**	19

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) Statement of Financial Position

	30-6-2019 HK$'000	30-6-2018 HK$'000
Non-current assets		
Interests in subsidiaries	**147,299**	106,628
Property, plant and equipment	**550**	1,028
Intangible assets	**38**	60
	147,887	107,716
Current assets		
Other receivables, deposits and prepayments	**2,368**	1,254
Bank balances and cash	**353**	116
	2,721	1,370
Current liabilities		
Accruals and other payables	**(20,140)**	(25,628)
Amounts due to directors	**(47,032)**	(36,302)
Obligations under finance leases	**(150)**	(194)
Convertible bonds	**(89,345)**	(89,413)
Derivative financial liabilities	**(10)**	(260)
	(156,677)	(151,797)
Net current liabilities	**(153,956)**	(150,427)
Total assets less current liabilities	**(6,069)**	(42,711)
Non-current liabilities		
Obligations under finance leases	**—**	(150)
	—	(150)
Net liabilities	**(6,069)**	(42,861)
Share capital	**51,360**	41,135
Reserves	**(57,429)**	(83,996)
Capital deficiency	**(6,069)**	(42,861)

The Company's statement of financial position was approved and authorised by the Board of Directors on 27 September 2019 and are signed on its behalf by:

CHEUNG Kwai Lan	**CHAN Ting**
Director	*Director*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – continued

(b) Reserves of the Company

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000	Share option reserve HK$'000	Convertible bonds reserve HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2017	41,135	2,480,372	1,484	35,572	1,547	2,672	2,569	(2,561,607)	3,744
Loss and total comprehensive expenses for the year	—	—	—	—	—	—	—	(49,302)	(49,302)
Changes in reserves arising from amendments to terms of convertible bonds in July 2017	—	—	—	—	—	528	—	2,672	3,200
Deferred tax liabilities arising from amendments to terms of convertible bonds	—	—	—	—	—	(528)	—	—	(528)
Changes in reserves arising from amendments to terms of convertible bonds in January 2018	—	—	—	—	—	(2,672)	—	2,672	—
Recognition of equity-settled share-based payments	—	—	—	—	25	—	—	—	25
Share options lapsed	—	—	—	—	(1,572)	—	—	1,572	—
At 30 June 2018 and 1 July 2018	**41,135**	**2,480,372**	**1,484**	**35,572**	**—**	**—**	**2,569**	**(2,603,993)**	**(42,861)**
Loss and total comprehensive expenses for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(103,942)**	**(103,942)**
Shares issued on placement of shares	**2,100**	**37,884**	**—**	**—**	**—**	**—**	**—**	**—**	**39,984**
Shares issued on acquisition of subsidiaries	**8,125**	**92,625**	**—**	**—**	**—**	**—**	**—**	**—**	**100,750**
Transferred to accumulated losses	**—**	**—**	**—**	**(35,572)**	**—**	**—**	**—**	**35,572**	**—**
At 30 June 2019	**51,360**	**2,610,881**	**1,484**	**—**	**—**	**—**	**2,569**	**(2,672,363)**	**(6,069)**

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 30 June 2019

RESULTS

	For the year ended 30 June				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
Revenue	**43,503**	25,347	26,359	34,657	123,736
Cost of sales and services	**(19,802)**	(9,642)	(12,913)	(12,255)	(15,365)
Gross profit	**23,701**	15,705	13,446	22,402	108,371
Other income	**66,269**	13,951	3,954	10,203	3,876
Selling and distribution expenses	**—**	(1,409)	(6,837)	(6,276)	(5,246)
Administrative and operating expenses	**(57,815)**	(80,268)	(84,388)	(97,084)	(79,868)
Provision for doubtful receivables	**(213)**	(8,797)	(43,127)	(46,465)	—
Impairment loss on assets	**(67,930)**	—	(53,776)	(85,712)	—
Gain on disposal of subsidiaries and associates	**—**	—	—	—	4,665
Finance costs	**(11,950)**	(12,581)	(13,316)	(11,988)	(10,720)
Share of result of joint ventures	**—**	—	(31)	(490)	(905)
(Loss)/profit before tax	**(47,938)**	(73,399)	(184,075)	(215,410)	20,173
Income tax credit/(expenses)	**2,312**	1,814	2,835	1,568	(2,329)
(Loss)/profit for the year	**(45,626)**	(71,585)	(181,240)	(213,842)	17,844

Certain figures in respect of the years ended 30 June 2015, 30 June 2016 an 30 June 2017 have been restated to conform with the presentation of the consolidated results for the year ended 30 June 2019.

ASSETS AND LIABILITIES

	30-6-2019	30-6-2018	30-6-2017	30-6-2016	30-6-2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(Restated)
Total assets	**228,668**	175,497	134,063	259,311	467,296
Total liabilities	**(191,429)**	(235,496)	(123,470)	(109,830)	(109,345)
Net assets/(liabilities)	**37,239**	(59,999)	10,593	149,481	357,951
Equity/(capital deficiency) attributable to equity holders of the Company	**37,736**	(59,392)	(646)	136,341	345,509
Non-controlling interests	**(497)**	(607)	11,239	13,140	12,442
Total equity/(capital deficiency)	**37,239**	(59,999)	10,593	149,481	357,951

GLOSSARY

"Articles of Association"	articles of association of the Company
"BVI"	British Virgin Islands
"Board"	the Board of Directors
"CGU(s)"	Cash generating unit(s)
"PRC"	the People's Republic of China, which for the purpose of this report, shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
"Company"	Sinopharm Tech Holdings Limited
"Director(s)"	the director(s) of the Company
"GEM"	GEM of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong
"HKAS"	Hong Kong Accounting Standard
"HKFRSs"	Hong Kong Financial Reporting Standards
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"new and revised HKFRSs"	new and revised standards, amendments and interpretations
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	Ordinary share(s) of HK$0.0125 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States Dollar, the lawful currency of United States of America
"Year 2018"	financial year ended 30 June 2018
"Year 2019"	financial year ended 30 June 2019