Smartac
中國智能

Smartac Group China Holdings Limited
中國智能集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 395)

ANNUAL REPORT **2017**

Contents

Corporate Information

Executive Directors

Mr. Yang Xin Min *(Chairman)*
Mr. Yang Zhen
Mr. Kwan Che Hang Jason

Independent Non-Executive Directors

Dr. Cheng Faat Ting Gary
Mr. Poon Lai Yin Michael
Mr. Yang Wei Qing

Qualified Accountant and Company Secretary

Ms. Yeung Wai Ling, HKICPA

Auditor

RSM Hong Kong
Certified Public Accountants
29th Floor
Lee Garden Two
28 Yun Ping Road
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Hong Kong

Principal Bankers

OCBC Wing Hang Bank Limited
Bank of Jiangsu
Bank of Suzhou
The Hongkong & Shanghai Banking Corporation Limited
China Construction Bank (Asia)
China Merchants Bank

Head Office and Principal Place of Business in Hong Kong

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Legal Advisors

Tung, Ng, Tse & Heung Solicitors
Conyers Dill & Pearman, Cayman

Principal Share Registrar

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Hong Kong Branch Share Registrar

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Stock Code

The Stock Exchange of Hong Kong Limited: 395

Five-Year Financial Summary

	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Restated)	
Revenue	**15,693**	24,319	33,559	46,684	101,669
Loss for the year	**(5,666)**	(157,898)	(143,309)	(156,971)	(206,105)
EBIT	**(134)**	(158,294)	(139,009)	(146,015)	(130,201)
EBITDA	**14,407**	(125,269)	(82,718)	(107,012)	(113,054)
Earnings/(loss) per share – basic (RMB)	**0.0033**	(0.0366)	(0.0409)	(0.0103)	(0.0821)
Earnings/(loss) per share – diluted (RMB)	**0.0033**	(0.0366)	(0.0409)	(0.0103)	(0.0821)
Ordinary shares (shares)	**4,762,033,424**	4,762,033,424	3,968,361,424	3,366,947,850	2,806,947,850
Cash and cash equivalents (including pledged bank deposits)	**20,551**	100,545	95,515	93,119	317,157
Total assets	**246,080**	248,061	292,751	538,553	1,091,573
Net asset value	**150,480**	137,487	221,356	271,031	268,398
Net asset value per share (RMB)	**0.03**	0.03	0.06	0.08	0.10

Yang Xin Min
Chairman

Dear Valued Shareholders

On behalf of the Board of Directors (the "**Board**") of Smartac Group China Holdings Limited (the "**Company**") and together with its subsidiaries, the "**Group**", I herein present the annual results of the Group for the financial year ended 31 December 2017 ("**FY2017**").

For Online-to-Offline ("**O2O**") solutions segment, due to the sluggish performance of the global economy and the slowdown of economic growth of the People's Republic of China ("**PRC**"), the overall business environment continued to be challenging in FY2017. Corporate clients have been more cautious and adopted a wait-and-see attitude on allocating resources towards information technology. Amid the continuously intense competition and increasing price pressures, the demands for the social customer relationship management platforms and O2O marketing solutions services were deteriorating. Given the continuously increasingly difficult operating environment of O2O solutions business, the Group has been closely monitoring the progress of the business operation and strengthening its after sales and value added services. During FY2017, the Group has undergone reallocation and consolidation of its resources to projects with high potential growth prospects. Disposals of non wholly-owned subsidiaries of Evolve Consulting Limited ("**Evolve**") and Lucy Robotics (Suzhou) Limited ("**Lucy Robotics**") in January 2017 and June 2017 respectively helped the Company to avoid further capital injection for unperforming projects. In view of the rapid growth of the PRC online retail market, the Company also completed the acquisition of 51% of the issued share capital in LCE Group Limited ("**LCE Group**") on 28 December 2017. Through the aforesaid acquisition, the Company could expand to services for marketing strategy and management of operation of online shop on e-commerce platform and it is expected that the Group will start to enjoy its fruitful results in fiscal 2018.

For integrated digital marketing ("**IDM**") solutions segment, in view of the increasing operating costs and deteriorating revenue stream resulted from unexpected delay and difficulties in installation works at certain railway stations, the Group has stopped the Wi-Fi operations for railway stations under Guangzhou Railway (Group) Corporation, Beijing Railway Administration and Lanzhou Railway Administration since the end of June 2017. In January 2018, the Group also signed a termination agreement regarding the Wi-Fi network installation and operation with Tianjin China Resources Vanguard Limited ("**Tianjin CR Vanguard**") due to its inability to generate revenue and the uncertainty in future operation. In June 2016, the Group through its subsidiary, Haihai Travel Cloud Limited ("**Haihai**"), started the WeChat Pay business in Hong Kong in providing services to Haihai's merchants to accept and process mobile cashless payment. The WeChat Pay business further grew in FY2017 and started contributing to the revenue of the Group.

FY2017 was a challenging year for the Group. We have however laid the foundations which will make us more competitive in the medium to long-term in a fast-paced global economy and will be at a position ready to take on new challenges in the future.

Finally, I would like to take this opportunity to express my sincere gratitude to our team for their efforts and contributions, and to all of our shareholders for their long-term trust and support.

Yours Faithfully

Yang Xin Min
Chairman

27 March 2018

BUSINESS REVIEW

The Company is an investment holding company, through its subsidiaries, providing (i) software sales and O2O consultation services by O2O solutions segment; (ii) digital advertising platform and related solutions by IDM solutions segment and (iii) marketing strategy and management of operation of online shop on e-commerce platform by E-Commerce solutions segment which is acquired on 28 December 2017.

For O2O solutions segment, during FY2017, clients of O2O services are main shopping malls in Shanghai. O2O services provided to our clients include tailormade social CRM (customer relationship management) platforms, big data management for retail sectors and maintenance service for voice recording system, call center system and social CRM platforms. The use of big data in the social CRM platforms assist clients in understanding consumers' behavior and personalizing customers' experience which make targeted promotion and marketing activities possible for clients. For the purpose of enhancing more effective use of financial resources, the Group has undergone some restructuring activities during the year through the disposal of non-wholly owned subsidiaries, Evolve Consulting Limited ("**Evolve**") in early January 2017 and Lucy Robotics (Suzhou) Limited ("**Lucy Robotics**") in late June of 2017. Upon the aforesaid restructuring activities, the Company avoided capital injection in unperforming projects and reallocated and consolidated resources to growing projects.

For IDM solutions segment, the Group (i) operated Wi-Fi networks in railway stations under Guangzhou Railway (Group) Corporation, Beijing Railway Administration and Lanzhou Railway Administration, major business areas in Shanghai and supermarkets of Tianjin China Resources Vanguard Limited ("**Tianjin CR Vanguard**"); (ii) provided digital advertisements and promotion articles for customers through own WeChat official account; and (iii) provided WeChat Pay payment service.

During FY2017, the Group, Guangdong Speed Advertising Company Limited and Guangdong Speed Media Company Limited signed agreements to terminate the two WiFi operations in Beijing and Lanzhou railways and not to renew the Wi-Fi operations in Guangzhou railway upon expiry of agreement due to unexpected delay and difficulties in installation works at certain railway stations which adversely affected the expected income and increased operating costs of the projects. This was also the main reason for waiving all obligations and commitments between the Group and these service providers upon termination of the agreements. Besides, the Group also decided not to continue the Wi-Fi operation in major business areas in Shanghai upon expiry of agreement in FY2017 and terminated its cooperative agreement with Tianjin CR Vanguard in January 2018 due to uncertainty of income stream.

In view of mobile payment services in Hong Kong having picked up pace and mobile payment technologies advancing rapidly in the past two years, the Company through its subsidiary, Haihai Travel Cloud Limited ("**Haihai**"), started the WeChat Pay business in Hong Kong providing merchants to accept and process mobile cashless payment since June 2016. Comparatively speaking, such payment services require substantially less capital investment than the Wi-Fi operations and, on the other hand, generate revenue for the Group. During FY2017, Haihai had been working with merchants who engaged in retailing businesses such as medical and pharmaceutical services, cosmetics, food and beverage, so as to offer customers a more convenient and fast mobile payment option when making both online and offline purchase.

In view of the robust growth of the PRC online retail market, the Group acquired 51% of the issued share capital in LCE Group Limited ("**LCE Group**") on 28 December 2017 which then became a non-wholly owned subsidiary of the Company. LCE Group is engaged in the provision of marketing strategy and management of operation of online shop on e-commerce platform aiming at making the overall shopping experience more seamless between online and offline stores.

OUTLOOK

Looking forward, it is expected that continuing and consistent growth of online shopping industry in the PRC and widespread use of mobile payment in Hong Kong can contribute prospective revenue stream to the Group. The Group will focus on integrating e-commerce, physical retail, logistics and mobile payment in order to enhance consumer shopping experience, expand consumer base and increasing profitability. Though the Group is cautious about the subdued global economic recovery and slow economic growth of the PRC, leveraging years of industry experience accumulated in the PRC and facing future opportunities and challenges, the Group will flexibly respond to the change of business trend, adjust business strategy and promote the steady development of business. In order to maximize returns to the shareholders, the Group, from time to time will strive to explore business expansion, technical cooperation and investment opportunities.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors are aware that the Group is exposed to various risks, including some which are specific to the Group or the industries in which the Group operates as well as others that are common to most businesses. The Group's major risks are summarised below.

Financial risk

The Group's activities expose it to a variety of financial risks including foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management procedures covers the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Details about the Group's financial risk management are set out in note 6 to the consolidated financial statements.

Manpower and retention risk

The Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will provide attractive remuneration package to suitable candidates and personnel, propose incentives to retain talents and optimize internal training and promotion mechanism.

Risk of rapid technological change

The industry development of the segments engaged by the Group changes rapidly. If the Group fails to promptly react to the change in technologies to satisfy customers' demands, it might result in an adverse impact on the financial status and operating results of the Group. The Group, therefore, strives to response swiftly to the market to provide more comprehensive product solutions and services to customers.

Risk of change in economy, politics and government policies

Most assets of the Group were located in the PRC and approximately 87% of the income was from the business in the PRC in 2017. Therefore, the operating results, financial status and prospects of the Group are influenced by the changes in economy, politics and government policies in the PRC. Hence, the Company will reinforce the communications with business partners, enhance the innovation on technology, strengthen the aftersales maintenance market, consolidate and ensure stable and healthy development of the PRC market.

Risk of data loss or operation interruption

The Group is dependent on information technology systems and networks. Any material disruption or slowdown of the information technology systems could cause loss of the intellectual property rights of customers, suppliers and the Group. Therefore, the Group established internal policy on source code management, data security, regular system checks and data backup to safeguard data security and integrity.

FINANCIAL REVIEW

Revenue

The Group recorded a decrease in revenue by approximately RMB8,626,000 from approximately RMB24,319,000 in financial year ended 31 December 2016 ("**FY 2016**") to approximately RMB15,693,000 in FY2017. Revenue represented (i) sales of hardware, software and IT system of approximately RMB4,793,000 (2016: approximately RMB3,851,000); (ii) consultation and maintenance service income of approximately RMB8,565,000 (2016: approximately RMB16,939,000); (iii) service income of approximately RMB1,131,000 (2016: approximately RMB3,529,000); and (iv) commission income and related sales of approximately RMB1,204,000 (2016: nil). The drop of revenue mainly attributed to the decrease in consultation and maintenance service income which was due to the full year effect of decrease by a subsidiary disposed and no promotion service income generated in FY2017.

Hardware, telecom and direct operation costs

Hardware, telecom and direct operation costs consisted of hardware cost, software cost, installation cost, telecom operation cost, advertising and promotion cost and other direct costs incurred for O2O solutions segment and IDM solutions segment. The balance decreased by approximately RMB6,450,000 from approximately RMB14,658,000 in FY2016 to approximately RMB8,208,000 in FY2017 mainly due to the decrease in hardware and software cost for O2O solutions segment and operation cost and advertising and promotion cost for IDM solutions segment.

Employee benefits expenses

Employee benefits expenses decreased by RMB15,828,000 from RMB34,591,000 in FY2016 to RMB18,763,000 in FY2017 mainly due to the drop in number of staff upon disposal of subsidiaries and closure of branches during the year.

Other operating expenses

Other operating expenses mainly represented auditor's remuneration, legal and professional fee, business development costs, office rental expenses, travelling expenses and other office expenses. The amount was relatively stable with slight decrease by approximately RMB350,000 from approximately RMB26,172,000 in FY2016 to approximately RMB25,822,000 in FY2017.

Amortisation of intangible assets

Amortisation of intangible assets increased by approximately RMB3,117,000 from approximately RMB9,027,000 in FY2016 to approximately RMB12,144,000 in FY2017 mainly attributable to the full year effect on amortisation arising from additions of internally generated software in O2O solutions segment last year.

Amortisation of long-term prepayments

Amortisation of long-term prepayments decreased by approximately RMB20,811,000 upon the termination of railway Wi-Fi projects in the IDM solutions segment in FY2017.

Impairment loss on intangible assets

Impairment loss on intangible assets of approximately RMB23,760,000 represented impairment loss recognised to intangible assets of the O2O solutions segment in FY2017 since recoverable amount of the cash-generating unit ("**CGU**") of the assets belonged was below the carrying amount of the CGU from the segment. The recoverable amount largely reduced because of the unpredictability of income generated from the O2O solutions segment due to keen market competitions.

Impairment loss on goodwill

Impairment loss on goodwill of approximately RMB5,695,000 was recognised in FY2017 since the recoverable amount of the CGU of the assets belonged to software development CGU within the O2O solutions segment was below the carrying amount of the CGU.

Write-back of other payables and reversal/provision for onerous contracts

The provision of RMB50,575,000 represented recognition of commitment for the railway Wi-Fi operation as of 31 December 2016. Due to unsatisfactory results from operations for years ended 2015 and 2016 arising from huge operating cost incurred and low revenue generated, the directors decided to suspend the railway Wi-Fi operations for two particular railway stations in order to reduce the losses, hence a provision for onerous contracts of RMB50,575,000 was recognised as at 31 December 2016.

On 28 June 2017, the Group entered into termination agreements mutually with the service provider regarding the withdrawal of the railway Wi-Fi operations for all railway stations due to unexpected delay and difficulties in installation works at certain railway stations which adversely affected the expected income and increased operating costs of the projects. Pursuant to the terms of the agreements, all liabilities and commitments previously due and to be due were waived by both parties and considered settled and concluded on 28 June 2017. Hence, the Group reversed the above provision of RMB50,575,000 and also derecognised the payable amounts of totalling RMB23,443,000 due to this service provider.

Provision for capital gain tax

Provision for capital gain tax of approximately RMB5,581,000 relating to the acquisition of LCE Group according to Public Notice [2015] No. 7 ("**Public Notice No. 7**") and Guoshuihan [2017] No. 37 issued by the State Administration of Taxation ("**SAT**").

Gain on disposal of subsidiaries

Gain on disposal of subsidiaries of approximately RMB3,959,000 represented gain on disposal of Evolve of approximately RMB3,623,000 and gain on disposal of Lucy Robotics of approximately RMB336,000.

Income tax expense

Income tax expense of approximately RMB4,740,000 mainly represented deferred tax expense of one of the Group's subsidiaries operating in Suzhou. The balance increased significantly because the Enterprise Income Tax ("**EIT**") rate was changed to 25% from the year ended 31 December 2017 onwards upon expiry of the concession at preferential rate of 15%.

Goodwill

Goodwill of approximately RMB59,883,000 represented the goodwill arising from the acquisition of 51% of the equity interest in LCE Group allocated to CGU of E-Commerce solutions segment.

Intangible assets

Intangible assets of approximately RMB40,166,000 represented identifiable intangible assets arising from the acquisition of LCE Group, of which approximately RMB40,076,000 was the fair value of customer relationship.

Trade and other receivables

Trade and other receivables increased by approximately RMB22,308,000 from approximately RMB27,180,000 in FY2016 to approximately RMB49,488,000 in FY2017 was mainly attributed to the increase arising from the acquisition of LCE Group.

Trade and other payables

Trade and other payables decreased by approximately RMB10,992,000 from approximately RMB36,452,000 in FY2016 to RMB25,460,000 in FY2017. The decrease was mainly due to the write-back of other payables of approximately RMB23,443,000 offset with the increase in trade and other payables of approximately RMB7,416,000 arising from the acquisition of LCE Group and provision for capital gain tax of approximately RMB5,581,000.

Contingent shares payable

The contingent shares payables represented the fair value of the consideration shares to be issued to the vendor in the acquisition of LCE Group. The fair value of the consideration shares was approximately RMB26,488,000 (equivalent to HK$31,773,000) as at 31 December 2017 and date of acquisition calculated based on the closing price of the Company's shares at date of acquisition and the actual and forecast profits of the LCE Group.

Contingent shares payables represented by:

	2017 **RMB'000**
Current portion	5,941
Non-current portion	20,547
	26,488

Deferred tax liabilities

Deferred tax liabilities increased by approximately RMB14,784,000 from approximately RMB8,207,000 in FY2016 to approximately RMB22,991,000 in FY2017. The increase was mainly due to the increase in EIT rate of one of the Group's subsidiaries operating in Suzhou from 15% to 25% in FY2017 and the deferred tax liability of intangible assets arising from the acquisition of LCE Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group committed to implement various ways to encourage in compliance with environmental legislation and promote awareness towards environmental protection to the employees. It implements green office practices such as setting default double-sided printing, promoting to reuse single-side printed papers, encouraging staff to maintain electronic records in order to reduce paper consumption, reducing energy consumption by switching off idle lightings and electrical appliances and setting optimal temperature on the air conditioning. The Group will continuously review its environmental practices and consider implementing further measures in its operation.

For details, please refer to the section headed "Environmental, Social and Governance Report" on pages 26 to 28 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's business is mainly operated by its subsidiaries in Hong Kong and the PRC. The Company was incorporated in the Cayman Islands and is listed on the Main Board of The Stock Exchange. The Group accordingly shall comply with relevant laws and regulations in the operating regions. During the year ended 31 December 2017 and up to the date of this annual report, as far as the Company is aware, there was no material breach or noncompliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group. The Group will seek for professional legal opinions from legal advisors when necessary to ensure that the Group's transactions and business are in conformity with all applicable laws and regulations.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that employees are the valuable assets and regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees. During the year, there was no dispute on salary payments and all accrued remunerations, in all kinds, were settled on or before their respective due dates, as stipulated under individual employee's employment contract. The Group also ensures that all the employees are reasonably remunerated by regular review and the policies on salary increment, promotion, bonus, allowances and all other related benefits are updated from time to time. Being people-oriented, the Group is committed to provide a safe and healthy workplace for its employees and encourage them to have a work-life balance. For details of employment and labour practices, please refer to the section headed "Environmental, Social and Governance Report" on pages 28 to 29 of this annual report.

The Group appreciates the importance of maintaining good relationship with customers and suppliers to meet its immediate and long-term business goals. The Group values the feedback from customers through regular communication to provide customers with enhanced services and address their concerns in a timely manner. For suppliers, the Group assures their performance for the quality of delivered products.

During the financial year ended 31 December 2017, there is no circumstance of any event between the Group and its employees, customers and suppliers which will have a significant impact on the Group's business and on which the Group's success depends.

CAPITAL EXPENDITURES

The capital expenditures for the year ended 31 December 2017 and 2016 were approximately RMB1,081,000 and RMB18,550,000, respectively. The capital expenditures for FY2017 mainly represented additions of construction in progress and property, plant and equipment for O2O solutions segment and IDM solutions segment while it represented additions of self-developed software, construction in progress and property, plant and equipment for O2O solutions segment and IDM solutions segment in FY2016.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group's bank and cash balances were approximately RMB20,532,000 (31 December 2016: approximately RMB99,953,000) and bank loans were RMB10,500,000 (31 December 2016: approximately RMB15,000,000). All bank loans were denominated in Renminbi and repayable within one year. Bank loans of RMB2,500,000 (31 December 2016: RMB3,000,000) and RMB8,000,000 (31 December 2016: RMB12,000,000) were arranged at fixed interest rates and floating interest rates respectively. The bank loans were secured by charge over the land, building, investment properties and personal guarantee provided by a director of the Company.

As disclosed in 2016 annual report and 2017 interim report, the Company had completed the placing of 793,672,000 ordinary shares on 15 December 2016 which generated a net proceed of approximately RMB72,193,000 (equivalent to approximately HK$80,750,000), which was mainly used as general working capital for existing business and for investment of new business in the upstream and downstream of the Group's principal business if opportunities arise.

As at 31 December 2017, the aforesaid net proceed uses which are consistent with the intended use of proceeds as disclosed in 2016 annual report has been applied as follows:

		Intended use of proceeds HK$'000	Actual use of proceeds HK$'000
(i)	General working capital for existing business	80,750#	10,750
(ii)	Investment of new business in the upstream and downstream of the Group's principal business		70,000*
Total		80,750	80,750

For both general working capital for existing business and investment of new business in the upstream and downstream of the Group's principal business

* Proceeds used in cash consideration paid for the acquisition of LCE Group

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, retained profit and other reserves). As at 31 December 2017, the debt-to-adjusted capital ratio was 20.44% (31 December 2016: 2.52%). It is the Group's strategy to keep the debt-to-adjusted capital ratio as low as feasible.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 5 January 2017, the Company through its non-wholly owned subsidiary entered into a conditional sale and purchase agreement with a director of Evolve, to dispose of the Group's entire 51% equity interests in Evolve and its subsidiary, which engaged in the provision of IT related services, at a cash consideration of HK$3,950,000 (equivalent to approximately RMB3,413,000). The disposal was completed on 27 January 2017.

On 30 June 2017, the Group through its non-wholly owned subsidiary entered into a conditional sale and purchase agreement with a related company, 蘇州璐思人工智能有限公司, which is controlled by a senior management personnel of the Group, to dispose of the Group's entire 100% equity interests in Lucy Robotics, which engaged in robot development, at a cash consideration of RMB500,000. The disposal was completed on 14 July 2017.

On 10 October 2017, the Company entered into a conditional sale and purchase agreement to acquire 51% of the equity interests of LCE Group at consideration of HK$168,300,000 (equivalent to approximately RMB140,308,000) which shall be satisfied by HK$70,000,000 in cash and HK$98,300,000 by way of allotment and issuance of the consideration shares to the vendor subject to the fulfilment of the guaranteed profits for the year ending 31 December 2017, 2018 and 2019 (the "**Acquisition**"). The Acquisition was completed on 28 December 2017 and LCE Group became a non-wholly owned subsidiary of the Company.

Saved for the above, the Group did not have any other significant investments, material acquisitions and disposals during the year.

SHARE CAPITAL STRUCTURE

During the two years ended 31 December 2016 and 2017, no options were granted or exercised. As at 31 December 2017, the total issued share capital of the Company was approximately RMB214,067,000 (approximately equivalent to HK$238,101,000) divided into 4,762,033,424 ordinary shares with a par value of HK$0.05 each.

FOREIGN EXCHANGE EXPOSURE

Major subsidiaries of the Group operate in the PRC and most of the transactions are denominated in RMB. As certain of the Group's monetary assets and liabilities are denominated in Hong Kong dollars ("**HK$**"), United States dollars ("**US$**") and Korean won ("**KRW**"), any significant exchange rate fluctuations of HK$, US$, and KRW against RMB may have financial impacts to the Group. Currently, the Group does not use any derivative financial instruments. Nevertheless, the Group will review the risk from time to time and take response measures if necessary.

CONTINGENT LIABILITIES

The Company acquired 51% equity interests in LCE Group from the vendor (a BVI company) during the year. This transaction is regarded as indirect transfer of the PRC subsidiaries of LCE Group by non tax residents and fall within the scope as described in the Public Notice No. 7 issued by the SAT.

The capital gain derived from such indirect transfer will be subject to EIT and the withholding agent should withhold the EIT amount for settlement with the tax authorities pursuant to the Public Notice [2017] No. 37 issued by SAT. The PRC tax authorities would demand the withholding agent for the payment of EIT and impose penalty of 50% to 3 times of the unpaid EIT. The penalty may be relieved if the indirect transfer has been voluntarily reported to the PRC tax authorities.

As at 31 December 2017, the Group paid HK$70,000,000 (equivalent to RMB58,358,000) to the vendor. Neither the Group nor the vendor has reported the share transfer transaction or has settled the EIT to the PRC tax authorities. The directors, after consulting the Group's PRC legal counsel, are of opinion that a provision of RMB5,581,000 based on the cash consideration paid to the vendor as of 31 December 2017 should be made, and considered that the risk of having a penalty imposed by the PRC tax authorities is reasonably low.

Apart from the above, the Group has no other material contingent liabilities as at 31 December 2017.

PLEDGED ASSETS

As at 31 December 2017, the following assets of the Group were pledged as securities, among others, for the banking facilities granted by its bankers:

(i) Charge over the building with carrying amount of approximately RMB5,646,000 (31 December 2016: approximately RMB6,042,000);

(ii) Charge over the prepaid land lease payments with carrying amount of approximately RMB2,118,000 (31 December 2016: approximately RMB2,174,000);

(iii) Charge over the investment properties with fair value of approximately RMB56,600,000 (31 December 2016: approximately RMB54,000,000); and

(iv) Personal guarantee provided by a director of the Company.

HUMAN RESOURCES

As at 31 December 2017, the Group had a total of approximately 71 employees (As at 31 December 2016: approximately 175 employees). Employee benefits expenses (including directors' emoluments) for the period were approximately RMB23,787,000 (2016: approximately RMB45,462,000). Employees were remunerated based on their performance, experience and prevailing industry practice. Bonuses and rewards might also be awarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis. The Remuneration Committee of the Company's Board is responsible for overseeing and reviewing the remuneration packages of the directors and senior management.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Saved as disclosed in note 44 and note 46 to the consolidated financial statements, the Group had not executed any agreement in respect of material investments or capital assets and did not have any other future plans relating to material investments or capital assets as at the date of this annual report.

Executive Directors

Mr. Yang Xin Min, aged 68, senior economist, is the founding Chairman, Chief Executive Officer and substantial shareholder of the Company. Mr. Yang graduated from the Beijing Economics Correspondence College. Since August 1977, Mr. Yang has been the General Manager of all predecessor entities of the Group. Mr. Yang has over 30 years' experience in the research, production management and international market development of zirconium chemicals. Mr. Yang is responsible for the formulation of the Group's overall business strategies and overseeing the daily operations of the Group. Mr. Yang is the father of Mr. Yang Zhen who is the Executive Director of the Company.

Mr. Yang Zhen, aged 41, is currently the president of the Hong Kong Association of Yixing and the vice president of Yixing Young Entrepreneurs Association. Mr. Yang graduated from Nanjing University with a bachelor degree in international trade and obtained EMBA degree at the Cheung Kong Graduate School of Business. Mr. Yang had served as a director of Century Dragon Investment Limited (an indirect wholly owned subsidiary of the Company until 18 December 2015) from 9 August 2000 until 18 December 2015. Mr. Yang is also appointed as the Business Development Director of the Company since 1 September 2014. He is responsible for the promotion of wireless network, O2O systems and solutions for the wireless system installation and software development. Mr. Yang is the son of Mr. Yang Xin Min who is the Chairman, Chief Executive Officer and substantial shareholder of the Company.

Mr. Kwan Che Hang Jason, aged 50, was appointed as an Executive Director of the Company in December 2013. Mr. Kwan was the founder and Chief Executive Officer of Smartac Group. He graduated in 1991 from the University of British Columbia, Canada with a Bachelor of Commerce degree and in 2010 from the EMBA program of Cheung Kong Graduate School of Business. During the period of his university studies, Mr. Kwan was the first Chinese Marketing Executive working for the Vancouver Board of Trade, as well as a part-time writer for the financial section of a local magazine. After graduation, Mr. Kwan joined the Jardines Group and was assigned to work in the IT division of the Jardines Group. In 1995, Mr. Kwan was assigned as the Regional Manager in Vietnam, and a year later he was assigned to work in the Shanghai subsidiary. In 1998, Mr. Kwan was promoted as the General Manager of Eastern China region where he worked until 1999.

In 2000, Mr. Kwan founded the Smartac Group and had opened 9 branch offices in China focusing on IT system integration business. In 2002, Mr. Kwan was a member of the Executive Committee and the Chairman of the IT Committee of the Hong Kong Chamber of Commerce (Shanghai). In 2007, the Suzhou subsidiary of Smartac Group was selected as one of the key developing enterprises in the Suzhou Industrial Park ("**SIP**") and had been granted the right to construct an office block in the SIP which is now used as the PRC headquarter of Smartac Group. Mr. Kwan is highly experienced in providing services in mobile internet technology, O2O solutions and retail big data service operation. Mr. Kwan is the elder brother of Mr. Kwan Che Ho Jacky who is a senior management personnel of the Group.

Independent Non-Executive Directors

Dr. Cheng Faat Ting Gary, aged 50, was appointed as an Independent Non-Executive Director of the Company in November 2001. He is the Chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. In 2011, Dr. Cheng graduated with a Doctor of Business Administration from the City University of Hong Kong with research area in "Independent Non-Executive Director ("**INED**") and Corporate Governance". He is one of few practicing CPA in Hong Kong with DBA degree of research area concentrated in INED study. Dr. Cheng is a Fellow Certified Public Accountant in both Hong Kong and the United States of America ("**USA**") and a Certified Tax Advisor of the Taxation Institute of Hong Kong. Dr. Cheng received his Bachelor's degree in Accounting (Honours) and Master's degree of Business Administration from Southern Illinois University, USA, in 1992 and 1994 respectively. Dr. Cheng had worked at the audit division of the international accounting firm, PricewaterhouseCoopers, and has over 25 years of experience in financial reporting, business advisory, auditing, accounting, tax investigation and liquidation. Dr. Cheng is currently the Managing Director of Gary Cheng CPA Limited. For public services, Dr. Cheng currently serves as Chairman of CityU Eminence Society, President of Hong Kong Metropolitan Lions Club and committee member of Social Welfare Advisory Committee of HKSAR.

Mr. Poon Lai Yin, Michael, aged 46, was appointed as an Independent Non-Executive Director of the Company in January 2010. Mr. Poon had acted as the Chief Financial Officer in two companies listed on the Growth Enterprise Market of the Stock Exchange since 2002, and was mainly responsible for the overall financial management, internal control function and accounting function. Mr. Poon has over 20 years of experience in financial reporting, business advisory, auditing, taxation, accounting, merger and acquisition. Mr. Poon is a fellow member of Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a practicing member of Asset Management Association of China. He holds a Bachelor's degree in Administrative Studies with York University in Canada and a Master's degree in Practicing Accounting with Monash University in Australia. Mr. Poon had been working for an international accounting firm and was responsible for providing business advisory and assurance services for some listed clients. Mr. Poon is currently an Independent Non- Executive Director of China Uptown Group Company Limited (stock code: 2330) since November 2006 and Independent Non-Executive Director of a Singapore listed company, CityNeon Holdings Limited (stock code: 5HJ) since August 2017. Mr. Poon was the alternate to Mr. Amir Gal-Or, a Non- Executive Director of Vincent Medical Holdings Limited (stock code: 1612) during the period from February 2016 to July 2017. Mr. Poon was also the Chief Executive Officer, authorized representative and the company secretary of Anxin-China Holdings Limited (stock code: 1149) during the period from February 2017 to May 2017. Mr. Poon was the Independent Non-Executive Director of Sun International Resources Limited (stock code: 8029) during the period from September 2008 to August 2011. Mr. Poon was the Executive Director and Non-Executive Director of Celebrate International Holdings Limited (previously known as Hong Kong Life Group Holdings Limited, stock code: 8212) during the period from October 2010 to July 2011 and from July 2011 to December 2011, respectively.

Mr. Yang Wei Qing, aged 41, a renowned internet economist, and is the founder and Chief Executive Officer of iResearch Consulting Group ("**iResearch**"). He is also the co-founder of China Venture Investment Consulting Group ("**China Venture**"). Mr. Yang obtained his Bachelor Degree from East China University of Science and Technology in 1998 and obtained his EMBA from Cheung Kong Graduate School of Business in 2010. Being enthusiastic about internet industry, Mr. Yang co-founded an internet marketing company, Wise Horse Marketing Company, in 1999 and became one of the first generation internet business founders and an expert in China's internet marketing. Mr. Yang started his business in internet-related research and consulting by establishing iResearch at Shanghai in late 2002. iResearch has now developed into one of the most highly professional internet consulting firms in China, publishing almost 100 research reports related to internet industry every year and serving the major companies in internet industry, internet marketing business as well as providing research consultancy service in the application of internet for traditional business enterprises. In 2005, Mr. Yang, together with a business partner, co-founded China Venture, which mainly participates in the operation of investment websites and engages in fund raising, merger and acquisition projects. Mr. Yang is highly experienced in research and consulting for internet-related and internet marketing businesses.

Senior Management

Ms. Yeung Wai Ling, aged 37, is the Financial Controller and Company Secretary of the Group. Ms. Yeung graduated from Hong Kong Baptist University and received a bachelor degree in Business Administration (Accounting). She is a member of the Hong Kong Institute of Certified Public Accountants. Before joining the Group in 2015, she has worked in international accounting firm and Singapore listed company. She has extensive experience in auditing and financial reporting.

Mr. Kwan Che Ho Jacky, aged 45, joined the Group's non-wholly owned subsidiary – Smartac Solutions (Suzhou) Limited ("**Smartac Solutions**") in December 2014 as Retail Business General Manager. He graduated from the University of British Columbia with a Master degree of Engineering in 1997. He joined the Hong Kong GEM Board listed company – Proactive Technology Holdings Limited in 1999, engaged in business communication services and specialized in VoIP communications and call center operations. In 2001, he joined Smartac Group which was acquired by the Group as a non-wholly owned subsidiary in 2013 as Sales and Marketing General Manager. Over these 16 years, he provided application solutions, established and maintained communications and call center systems for various companies in logistics, retail and foreign financial industries such as UPS, TNT, IKEA in China, Hang Lung Properties, UBS, BNP Paribas, Standard Chartered Bank. He is the younger brother of Mr. Kwan Che Hang Jason who is the Executive Director of the Company.

Mr. Zhang Fang, aged 38, Software Development General Manager of Smartac Solutions, was responsible for developing online to offline software solutions, SCRM system and processing massive software data distribution and analysis. Mr. Zhang joined Smartac Solutions in 2006 and had worked as Senior Software Develop Engineer, Project Manager, CRM Department Manager and Developer Director during the period from 2006 to August 2014. He was promoted to Software Development General Manager in August 2014. Mr. Zhang graduated from Shanghai East China Normal University and joined the direct marketing company – Shanghai Mecox Lane International Mailorder Company Limited to develop invoicing and workflow systems. He had also involved in the development of customer relationship management, enterprise resource planning, management information systems, call center software and was responsible for software projects and database management.

Ms. Xu Ai Ping, aged 46, joined the Group's wholly owned subsidiary – Solomedia Digital (Shanghai) Limited in November 2014 as Group Human Resources Director. Ms. Xu graduated from Nanjing Normal University with Associate degree in English and Hong Kong University School of Professional and Continuing Education with Postgraduate Diploma in Organizational and Human Resources Management. Ms. Xu has been working in human resources management field in the high technology industry for over 17 years. She has a wealth of practical experience in human resources aspects and worked in the China Resources Group Limited's semiconductor manufacturing company – CSMC Technologies Corporation, US-owned chip design company – Advanced Analogic Technologies Inc. and US-owned semiconductor company – Skyworks Solutions Inc.

Corporate Governance Practice

The Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained.

During the year ended 31 December 2017, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") except for the following deviation:

Code Provision A.2.1 of the Corporate Governance Code stipulates that the roles of Chairman and Chief Executive Officer ("**CEO**") to be performed by different individuals. The deviation is deemed appropriate as the Company believes that the combination of the roles of Chairman and CEO promotes the efficient formulation and the implementation of the Company's strategies enabling the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its Independent Non-Executive Directors ("**INEDs**"), a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Board of Directors

Composition

The Board is responsible for supervision of the management of the business and affairs, approval of strategic plans and reviewing of financial performance. The Board currently consists of three Executive Directors and three INEDs:

Executive Directors	:	Mr. Yang Xin Min *(Chairman and CEO)*
		Mr. Yang Zhen
		Mr. Kwan Che Hang Jason
INEDs	:	Dr. Cheng Faat Ting Gary
		Mr. Poon Lai Yin Michael
		Mr. Yang Wei Qing

The Board membership is covered by professionally qualified and widely experienced personnel so as to bring in valuable contribution and different professional advices and consultancy for the development of the Company. The number of INEDs represented half of the Board membership.

Biographies of all Directors are set out on pages 15 to 16 of this annual report.

Appointments, Re-election and Removal of Directors

Code provision A.4.2 of the Code on Corporate Governance Practices stipulates that all Directors appointed to fill a casual vacancy should be subject to election by Shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the INEDs has entered into a service contract with the Company for a term of one to two years. At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office.

A Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

Role and Function

Save for the Board meetings held between the Executive Directors during the normal course of business, the Board also conducted meetings of all board members during the year. Such Board meetings involve active participation, either in person or through other electronic means of communication, of a majority of the Directors. In addition, the Board members will also discuss on ad hoc issues through informal meetings and granted approval on material decisions by way of Board written resolutions in accordance with the Company's articles of association.

During the year, 9 Board meetings were held and the attendance of each Director is set out as follows:

Directors	No. of meetings attended
Mr. Yang Xin Min	9/9
Mr. Yang Zhen	9/9
Mr. Kwan Che Hang Jason	8/9
Dr. Cheng Faat Ting Gary	9/9
Mr. Poon Lai Yin Michael	9/9
Mr. Yang Wei Qing	9/9

INEDs

The Company has appointed three INEDs, with two of them possess recognised accounting professional qualifications in Hong Kong or overseas.

The Company has received annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent within the definition of the Listing Rules.

Chairman and CEO

Under the Code on Corporate Governance Practices, the roles of Chairman and CEO should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. Mr. Yang Xin Min has been the Chairman and the CEO of the Company since its incorporation and is in charge of the overall management of the Company and the Group. The Company considers that the combination of the roles of Chairman and CEO is conducive to strong and consistent leadership and can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its INEDs, a balancing mechanism between the Board and the management of the Company exists so that the interests of the shareholders are adequately and fairly represented.

Board Committees

There are three committees established under the Board:

(a) Audit Committee

The Audit Committee, comprises all INEDs of the Company, is chaired by Dr. Cheng Faat Ting Gary who is a professional accountant and has proven experience in audit, finance and accounting.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting than those set out in the Code on Corporate Governance Practices. The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting, risk management and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company. Each member of the Audit Committee has unrestricted access to the external auditors and all senior staff of the Group.

The Audit Committee held two meetings during the year, in particular, to review and discuss:

- the interim results and annual audited financial statements;
- the auditing and financial reporting matters, including the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2017;
- the appointment of external auditors; and
- the effectiveness of risk management and internal control systems.

All issues raised by the Audit Committee have been addressed by the management of the Company. The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the management of the Company were of sufficient importance to require disclosure in this annual report.

The Board agrees with the Audit Committee's proposal for the reappointment of RSM Hong Kong as the Company's external auditor for 2018. The recommendation will be put forward for the approval of the shareholders of the Company at the Annual General Meeting to be held on 30 May 2018.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comment and record respectively.

Auditor's Remuneration

An analysis of the remuneration paid to the external auditor of the Company, RSM Hong Kong, in respect of audit services and non-audit services for the year ended 31 December 2017 is set out below:

Service category	**Fees paid/payable HK$'000**
Audit service	
– Annual audit for 2017	1,800
– Reporting accountant of circular	1,010
Non-audit service	
– Review on continuing connected transactions	50
– Financial due diligence	380
– Taxation	6
	3,246

(b) Remuneration Committee

The Remuneration Committee currently consists of three members, namely two INEDs, Dr. Cheng Faat Ting Gary (Chairman), Mr. Poon Lai Yin Michael and one Executive Director, Mr. Yang Xin Min.

The Company formulated written terms of reference of the Remuneration Committee based on terms no less exacting than the required standard as set out in the Code on Corporate Governance Practices. The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the Directors and senior management. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management. The Remuneration Committee meets at least once a year. The Remuneration Committee had reviewed the remuneration packages of all Directors and made recommendation to the Board during the year.

Remuneration payable to members of senior management of the Company (excluding Directors) for the year of 2017 is within the following bands:

	Number of individuals	
	2017	2016
Nil to RMB500,000	2	1
RMB500,001 to RMB1,000,000	1	3
RMB1,000,001 to RMB1,500,000	1	–

(c) Nomination Committee

The Nomination Committee currently consists of the three members, namely two INEDs, Dr. Cheng Faat Ting Gary (Chairman), Mr. Poon Lai Yin Michael and one Executive Director, Mr. Yang Xin Min.

The Company formulated written terms of reference of the Nomination Committee based on terms no less exacting than the required standard as set out in the Code on Corporate Governance Practices.

The Nomination Committee meets at least once a year. The Committee's members' primary roles and functions are to assess and recommend the appointment and re-appointment of Directors to the Board, as well as overseeing the appointment, management succession planning and performance evaluation of key senior management of the Company.

The Nomination Committee has reviewed and is of the opinion that the current size and composition of the Board is adequate to facilitate effective decision-making. The Nomination Committee is also satisfied that the Board comprises directors, who, as a group, provide the core competencies necessary to guide the Group.

A proposal for the appointment of a new Director will be considered and reviewed by the Nomination Committee. Candidates to be selected and recommended are those experienced, high caliber individuals. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules.

A candidate who is to be appointed as an INED should also meet the independence criteria as set out in Rule 3.13 of the Listing Rules.

Attendance Record at Board Committee Meetings

The following table shows the attendance of Directors at the Board Committee meetings during the year:

	No. of meetings attended		
Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. Yang Xin Min	N/A	4/4	1/1
Dr. Cheng Faat Ting Gary	2/2	4/4	1/1
Mr. Poon Lai Yin Michael	2/2	4/4	1/1
Mr. Yang Wei Qing	2/2	N/A	N/A

Directors' Securities Transactions

The Company has adopted a code of conduct rules (the "**Code of Conduct**") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry with all Directors, the Company confirms that all the Directors have complied with the required standard set out in the Code of Conduct and the Model Code throughout the year.

Accountability And Audit

The Directors are responsible for overseeing the preparation of financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the auditors of the Company about their responsibilities for the audit of the Group's consolidated financial statements is set out in the Independent Auditor's Report on pages 44 to 50.

Risk Management and Internal Control

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems on an ongoing basis in order to safeguard the Group's assets, investments and the shareholders' interest, and in reviewing their effectiveness at least annually through the Audit Committee.

The Group has appointed an internal auditor which provides an independent review on the effectiveness of the Group's risk management and internal control systems on an annual basis and in fulfilling its duties to oversee corporate governance and material controls in the Group's financial, operational and compliance controls. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

During the year, the Group's internal auditor conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group based on the audit plan agreed annually by the Audit Committee over financial, operational and compliance controls. These results were assessed by Group's internal auditor and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Board and Audit Committee closely monitor the findings conducted and recommendations proposed by the internal auditor and also the corrective measures taken by relevant departments. During the year, the Audit Committee, and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or operating results, and considered that the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

The Company regulates the handling and dissemination of inside information to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company's legal advisor also assists the Board to assess whether the relevant information is considered to be inside information which needs to be disclosed as soon as reasonably practicable.

Communications with Shareholders and Investors

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairmen of the Board, of the Audit Committee and of the Remuneration Committee are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for conducting a poll and other relevant information of the proposed resolutions.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner. Printed copies of the Annual Report 2016 and Interim Report 2017 were sent to all shareholders.

All the reports, announcements and circulars that had been filed by the Company with the regulatory authorities can be reviewed at and downloaded from the Company's website at www.smartacgroup.com.

Shareholders' Rights

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of Hong Kong Exchanges and Clearing Limited after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Company's Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Room 1204, 12th Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong
For the attention of the Board of Directors

Shareholders are encouraged to provide, amongst other things, in particular, their email addresses to the Company in order to facilitate timely and effective communication.

ABOUT THIS REPORT

This is the second Environmental, Social and Governance Report (the "**ESG Report**") of the Company and its subsidiaries (collectively the "**Group**" or "**we**"). The ESG Report not only elaborates our commitment and strategies but also summarizes our efforts and achievements on corporate social responsibility and sustainable development during the year ended 31 December 2017. As for the information of corporate governance, please refer to the Corporate Governance Report of this Annual Report.

Scope of the Report

The ESG Report focuses on our sustainability approach and performance in environmental and social aspects of our core business, namely (i) sale of software and provision of O2O (Online to Offline) consultation service; and (ii) provision of digital advertising platform and related solutions in mainland China and Hong Kong during the year ended 31 December 2017. We have displayed KPIs in this report as much as possible, including all the KPIs of Environmental Aspects (Subject Area A, if applicable) and part of the KPIs of Social Aspects (Subject Area B). The KPIs are derived from the data of the Group's subsidiaries in Suzhou, and the operations of other subsidiaries are not included.

Reporting Framework

The ESG Report was prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Stakeholder Engagement

We have engaged employees from different departments in the preparation of ESG Report, which enables us to better recognize our current environmental and social development. The information and data collected is not only a summary of our environmental and social initiatives carried out during the year ended 31 December 2017, but also forms the basis for us to map out short-term and long-term strategies for sustainable development.

Information and Feedbacks

For detailed information about the environmental and social performance, please refer to the official website (www.smartacgroup.com) and the Annual Report. Your opinions will be highly valued by the Group. If you have any advice, please contact us via: investors@smartacgroup.com.

ENVIRONMENTAL

Emissions

Due to the absence of manufacture and construction activities, the operations of the Group do not generate significant air emissions and hazardous waste. The key environmental impacts of the Group's operations are direct greenhouse gas (GHG) emissions from the use of refrigerant and indirect GHG emissions from electricity consumption at the workplace, business travel by employees and paper waste disposal at landfills. During the year ended 31 December 2017, the Group's subsidiaries in Suzhou emitted approximately 139 tonnes of GHG, with every square meter of floor area emitting 0.25 tonnes of GHG.

The wastewater generated by the Group is mainly domestic wastewater, which is discharged into municipal wastewater treatment plant for further treatment. The solid wastes produced by the Group consist of waste paper and other domestic wastes at its offices, both of which belong to non-hazardous waste. However, total amount of non-hazardous waste generated by the Group's subsidiaries in Suzhou is unavailable since the Group's office property is leased by other enterprises and the domestic waste of the whole building is collected together by local garbage removal company.

Use of Resources

Resources used by the Group are mainly attributed to electricity and paper consumption at its offices. Water consumption of the Group is minimal. During the year ended 31 December 2017, total electricity consumption of the Group's subsidiaries in Suzhou is 190 MWh, with every square meter of floor area consuming 0.35 MWh. The total water consumption of the Group's subsidiaries in Suzhou is unavailable since the subsidiaries did not charge lessees for water and the water bills of the whole building were paid together.

Emission Reduction and Resource Conservation

The Group believes that saving energy, water and other resources are not only of great significance to reduce carbon emissions as well as waste generation during operation, but also help to achieve sustainable development and reduce operational costs for an enterprise.

To maximize energy utilization efficiency of lights, air conditioners, computers and other electric devices, the Group has adopted a number of measures, such as using energy-efficient lights, separating light switches for different light zones, improving refrigerating efficiency of air conditioners by cleaning filters regularly, setting temperature of air conditioners at 25.5°C or above, allowing employees to wear casual clothes every Friday and in hot weather, setting computers to automatic standby or sleeping mode when idle, switching off office devices when not in use, and so on. Due to the indirect carbon emission caused by vehicles and planes, teleconference is primarily utilized to avoid unnecessary business travel.

To reduce water consumption, the Group has launched multiple water efficiency initiatives, including posting water-saving slogans in toilets, preventing leakage by periodically inspecting water meters and water pipes, and so on.

In terms of paper consumption, the Group is committed to promoting paper saving. The practices include adopting Office Automation (OA) System, setting double-sided printing as default mode, purchasing environmentally friendly paper, posting paper-saving slogans near printers, reusing single-side printed paper, using e-statement or scanning instead of printed documents, and encouraging employees to deliver information through telecommunication technologies.

To reduce waste generation, apart from paper conservation, the Group has also paid attention to the recycling and reusing of office supplies. Priority is given to recyclable ink cartridges, rechargeable batteries and other products that are conducive to environmental protection. Procurements of disposable goods and over-packaged products are avoided if possible.

Environment and Natural Resources Protection

Although the Group's operations do not exert adverse effects on environment and natural resources, it strives to minimize its environmental impacts. The Group understands the importance of employees' support and participation in protecting the environment and natural resources. To this end, employees are frequently reminded by emails, posters and intranet within the Group to integrate the awareness of environmental protection into their daily work. Besides, employees are also encouraged to use stairs instead of taking escalator and participate in activities organized by environmental protection organizations. During the year ended 31 December 2017, in strict compliance with all the national and regional laws and regulations regarding pollution control and environmental protection, the Group continued to execute its practices that improve energy efficiency and give careful consideration to conserve resources.

SOCIAL

Employment and Labour Practices

Employment

Employees are regarded as the most valuable assets and the core competitive advantage of the Group. The Group's practices and policies with respect to: (i) compensation and dismissal; (ii) recruitment and promotion; (iii) working hours; (iv) rest periods; (v) equal opportunity; (vi) diversity; (vii) anti-discrimination; and (viii) other benefits and welfare continued to comply with relevant laws and regulations, such as the Labour Law of the PRC and the Employment Ordinance of Hong Kong. In order to ensure employees' understanding of the Group's policies, an Employee Handbook has been published. The Handbook includes the terms and conditions of employment, staff compensation and benefits (yearly bonus, allowances, various types of leave entitlement, medical benefits, social security, mandatory provident fund and training), promotion channel, occupational safety, complaint channels and office rules.

The Group offers competitive remuneration and implements a sound performance appraisal system with appropriate incentives. Internal and external training are provided for career development and progression. Salaries are reviewed and adjusted on a yearly basis. Employees are entitled to yearly bonus based on performance appraisals and market trend. The Group has implemented standard working hours, namely working 40 hours per week, and offered employees overtime pay or compensation leave upon prior approval of their managers. Employees also enjoy paid leave for statutory holidays, annual leave, sick leave, marriage leave, compassionate leave and maternity leave. The Group conducts recruitment and promotion without regard to employee's race, religion, gender, marital status and disability so as to provide good working environment free from discrimination and harassment, thus putting the principle of equality and fairness into practice. The Group seriously considers all valuable opinions from employees for enhancing workplace productivity as well as building a united and harmonious professional team.

Health and Safety

To protect employees' occupational health and safety, the Group is committed to providing safe, healthy and comfortable working environment and complies with relevant laws and regulations on occupational health and safety.

The Group offers its employees medical insurance coverage and health check plans. Employees are trained to follow the safety rules and regulations in accordance to Employee Handbook and employment contract. Training on how to utilise available and appropriate protection measures at all times, is also provided to employees to avoid accidents and protect both themselves and their coworkers from safety risks. During the year ended 31 December 2017, the Group did not encounter any major accidents, employee fatalities or serious work-related injuries during operation.

Development and Training

The Group believes that employees are the key to its business success. In face of the challenges of today's changing market environment, employees are expected to enrich their knowledge and improve their skills and abilities through high quality trainings, so as to continuously enhance the Group's performance and keep it in the forefront of competitors. Therefore, the Group has committed itself to providing high quality training for employees.

The Group provides induction training for new employees to help them familiarise with its business and operations, vision and mission, core values, business goals and overview as well as the product knowledge. On-the-job training is also provided for the improvement of employees' performance. Training is organized in different forms, including but not limited to outbound training, in-house training and corporate external training courses. Employees are also encouraged to enroll external training courses such as occupational ethics, business technology, safety courses with whole or part of the training fees subsidized by the Group upon the approval from human resources department and related department manager.

Labour Standards

Recruitment of child labour is strictly prohibited within the Group. Applicant's identity information is verified during the recruitment process. The Group enters into employment contract with employees in accordance with local laws and regulations, with their job duties and working hours clearly stated in the contract. Working beyond working hours is prohibited within the Group. Employees are entitled to overtime pay or compensation leave. No employee is paid less than the minimum wage specified by the government regulations. Monthly salary payments, social insurance and mandatory provident fund contributions are made on time according to Employee Handbook. During the year ended 31 December 2017, the Group strictly complied with all the national and regional laws and regulations regarding labour standards.

Operating Practices

Supply Chain Management

The Group values the partnership with suppliers and strives to jointly promote sustainable development of the industry. Suppliers are continuously evaluated on the basis of their backgrounds, qualifications, past performance, fulfillment of contract, professionalism of project team and social responsibilities, with their conformity to legislation on labour standards, health and safety and business ethics simultaneously taken into account. In view of the environmental impacts caused by manufacturing and transportation processes, the Group seeks to purchase environmentally friendly products from nearby suppliers.

Product Responsibility

The Group complies with laws and regulations relating to its business operation in areas like health and safety, advertising and privacy matters. The Group always pays highly attention to the quality and safety of its services. If a complaint should arise, the Group will immediately assess the complaint and conduct an internal investigation into the matter to identify the source of the issue and take remedial actions. During the year ended 31 December 2017, the Group had not received any complaint or request to terminate projects due to clients' dissatisfaction with the quality and safety of its services.

The Group strictly complies with the Advertising Law of the PRC and other relevant laws and regulations. It has been stipulated that employees of sales department shall provide customers with accurate and true information on the Group's services. In consistence with Employee Handbook and employment contract, employees are disallowed to disclose any information obtained in connection with their employment, including but not limited to, trade secrets, know-how, client information, supplier information and other proprietary information for the benefits of his own and others.

The Group attaches importance to data protection. Source code backup are performed from time to time to protect the most critical information from missing in the event of system crashes and errors. Due to the involvement of intellectual property rights of customers, suppliers and the Group, protecting intellectual property rights is another important task. The Group strictly abides by the Trademark Law of the PRC, the Patent Law of the PRC, the Copyright Law of the PRC and other relevant laws and regulations during operation. Protective clauses are included in the contracts entered into with customers and suppliers to safeguard the intellectual property rights and confidentiality of all parties.

Anti-corruption

The Group strictly complies with all the national and regional laws and regulations relating to extortion, fraud and money-laundering, such as the Criminal Law of the PRC and the Prevention of Bribery Ordinance in Hong Kong. To promote integrity and prevents unethical pursuits, the Group has implemented an effective whistleblowing policy for reporting wrongdoings in accordance with Employee Handbook. The Group has also set out an integrity agreement for the purpose of signing with the external parties to avoid any advantage given or received in the conduct of the Group's business. During the year ended 31 December 2017, no violation of laws, regulations or internal provisions of the Group had occurred during operation.

Community Investment

In addition to focusing on its business development, the Group always seeks to contribute to local development and maintains close communication and interactions with the communities where it operates. Meanwhile, the Group also actively encourages employees to participate in voluntary activities to benefit local communities and help those in need.

The government in Suzhou encourages companies to employ landless farmers of Suzhou Industrial Park and provide them with necessary pre-job training. During the year ended 31 December 2017, the Group's subsidiaries situated in Suzhou Industrial Park continued to fulfill their social responsibility by offering employment opportunity to two landless farmers.

APPENDIX: ESG REPORTING GUIDE CONTENT INDEX

Subject Areas and Aspects	Description	Section in ESG report
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) relevant standards, rules and regulations on air (include NO_X, SO_X) and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Not applicable to the Group's business
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Not applicable to the Group's business
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Emissions
KPI A1.5	Descriptions of measures to mitigate emissions and results achieved.	Emission Reduction and Resource Conservation
KPI A1.6	Descriptions of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions
Aspect A2: Use of resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources
KPI A2.2	Water consumption in total and intensity.	Use of Resources
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Emission Reduction and Resource Conservation
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Emission Reduction and Resource Conservation
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Not applicable to the Group's business
Aspect A3: The environment and natural resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environment and Natural Resources Protection
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environment and Natural Resources Protection

Subject Areas and Aspects	Description	Section in ESG report
B. Social		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practices
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Not disclosed
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Not disclosed
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities.	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category.	Not disclosed
KPI B3.2	The average training hours completed per employee by gender and employee category.	Not disclosed
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
KPI B4.2	Description of steps taken to eliminate child and forced labour practices when discovered.	Not disclosed

Subject Areas and Aspects	Description	Section in ESG report
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Not disclosed
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable to the Group's business
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	Not applicable to the Group's business
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption
Community		
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes into consideration the communities' interests.	Community Investment
KPI B8.1	Focus areas of contribution.	Not disclosed
KPI B8.2	Resources contributed to the focus areas.	Not disclosed

Principal Activities

The Group is principally engaged in providing (i) software sales and O2O consultation services; (ii) digital advertising platform and related solutions services and (iii) marketing strategy and management services in operation of online shop on e-commerce platform.

The principal activities of the Company's subsidiaries are set out in note 25 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 10 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 51 to 52.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 3.

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.

Property Held for Investment

As at 31 December 2017, the Group has investment properties located in Yinglian International Epibolic Centre, No. 288 Dongping Street, Suzhou Industrial District, Suzhou City, Jiangsu Province, the PRC. The investment properties are held for commercial use and on medium term lease. Details of the investment properties are set out in note 20 to the consolidated financial statements.

Share Issued During the Year

Details of the share issued during the year ended 31 December 2017 are set out in note 39 to the consolidated financial statements.

Reserves

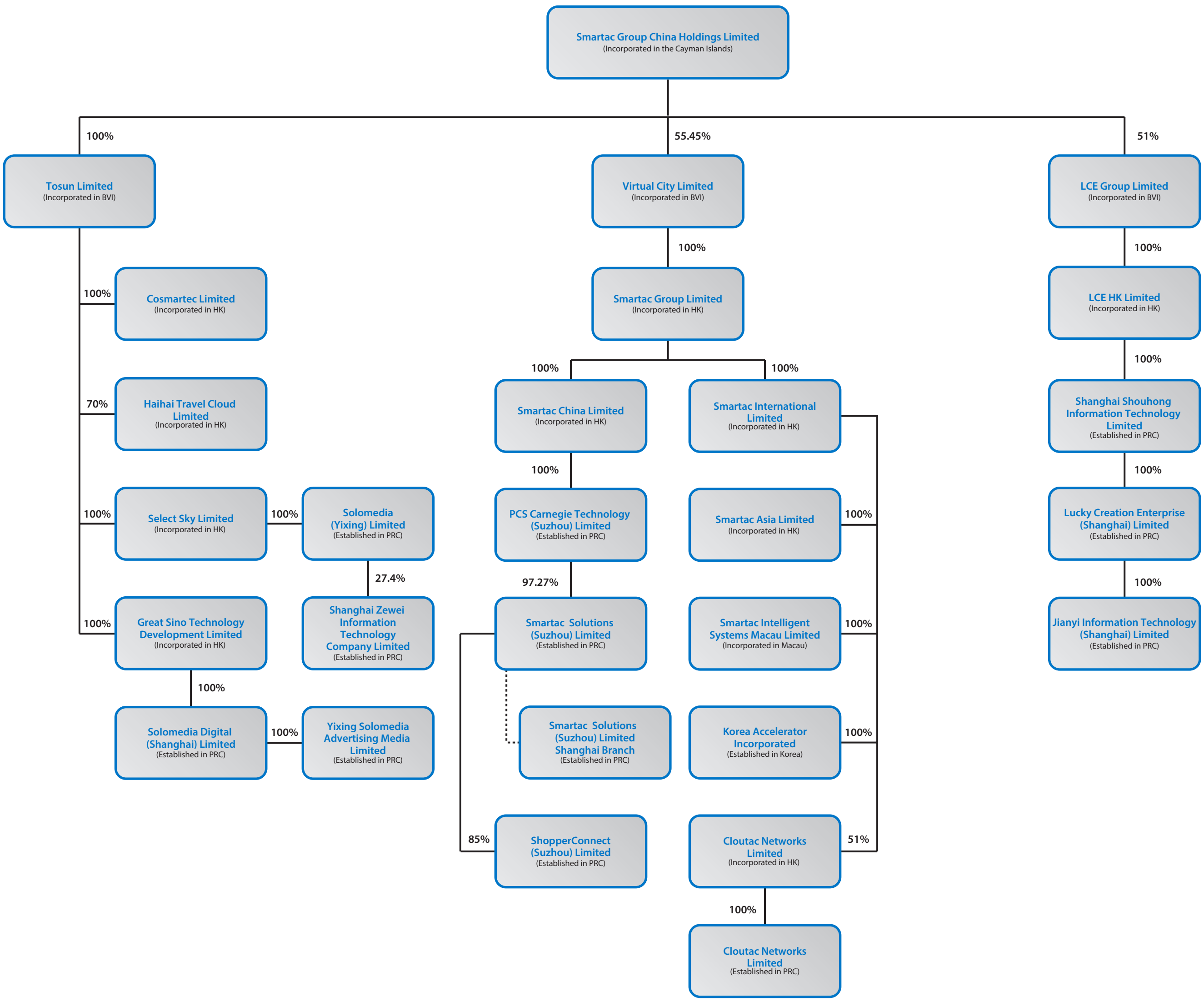
Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 55.

Distributable Reserves

Pursuant to the Companies Law of the Cayman Islands and the Company's articles of association, in addition to the retained profits of the Company, the ordinary share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2017 amounted to nil (2016: nil).

Group Structure

As at 31 December 2017, the Group's structure was as follows:



Directors

The Directors who held office during the year and as at the date of this report are shown below. Their biographies are set out on pages 15 to 16.

Executive Directors

Mr. Yang Xin Min, *Chairman and Chief Executive Officer*
Mr. Yang Zhen
Mr. Kwan Che Hang Jason

Independent Non-Executive Directors

Dr. Cheng Faat Ting Gary
Mr. Poon Lai Yin Michael
Mr. Yang Wei Qing

Each of the above Directors has entered into a service contract with the Company for a term of one to two years. Each service contract will continue thereafter unless terminated by either party thereto giving to the other at least three months' notice (Executive Directors) or one month's notice (INEDs) in writing.

The Company has received from each of the INEDs a confirmation letter of his independence pursuant to paragraph 12B of Appendix 16 of the Listing Rules and considers each of the INEDs is independent.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2017, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("**SFO**") which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares

		Number of Shares			Approximate Percentage of Total Share Capital
Name of Director	**Capacity**	**Personal Interest**	**Other Interests**	**Total Interests**	
Yang Xin Min	Beneficial	592,573,880	–	592,573,880	12.44%
Yang Zhen	Beneficial	1,336,000	–	1,336,000	0.03%
Kwan Che Hang Jason *(note 1)*	Beneficial	131,413,304	–	131,413,304	2.76%
Cheng Faat Ting Gary *(note 2)*	Beneficial	–	200,000	200,000	0.004%

Notes:

1. The 131,413,304 shares comprised (i) 792,000 shares held by Mr. Kwan Che Hang Jason directly; and (ii) 130,621,304 shares held by China Software Services (Holdings) Limited ("**CSS**"). Mr. Kwan Che Hang Jason was the controlling shareholder of CSS and therefore was deemed to have an interest in the 130,621,304 shares.

2. The 200,000 shares are held by the spouse of Dr. Cheng Faat Ting Gary and therefore Dr. Cheng Faat Ting Gary is deemed to have an interest in the 200,000 shares.

Interests and Short Positions of Substantial Shareholders in the Shares and Underlying Shares of the Company

As at 31 December 2017, so far as was known to the Directors and the chief executive of the Company, the following persons had an interest or short position in the shares and underlying shares in would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

Long positions in the shares

		Number of Shares		Approximate Percentage of
Name of Shareholder	**Capacity**	**Personal Interest**	**Total Interests**	**Total Share Capital**
Yang Xin Min	Beneficial	592,573,880	592,573,880	12.44%
HK DYF Int'l Holding Group Limited	Beneficial	260,536,000	260,536,000	5.47%

Directors' Interests in Competing Business

None of the Directors had any interest, either direct or indirect, in any business, which may compete or constitute a competition with the business of the Group.

Directors' Material Interests in Transactions, Arrangements or Contracts that are Significant in Relation to the Group's Business

Details of the connected transactions and related party transactions are disclosed in this report and in note 47 to the consolidated financial statements respectively.

Save for the above, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any its subsidiaries was a party and in which a director of the Company or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Share Options Granted Pursuant to the Share Option Scheme

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the "**Old Scheme**") was approved and adopted. The Old Scheme was terminated by a resolution passed by the shareholders in the Company's annual general meeting held on 27 May 2011. No further options can be granted under the Old Scheme but in all other respects the provisions of the Old Scheme shall remain in full force and effect.

On 27 May 2011, the shareholders passed a resolution in the annual general meeting to approve and adopt a new Share Option Scheme (the "**New Scheme**") and the Board may, at its discretion, grant options ("**Options**") to eligible participants as defined in (ii) below.

The total number of shares in respect of which options may be granted under the New Scheme shall be 230,936,210 shares, representing approximately 4.8% of the issued share capital of the Company as at the date of this annual report.

(i) Purpose

The purpose of the New Scheme is to enable the Company to grant Options to eligible participants as incentives or rewards for their contribution to the Company and/or any of its subsidiaries. Through the New Scheme, the Company can motivate and reward the Eligible Participants who have contributed to the Company by enhancing its performance, improving its management and operation, and providing it with good advice and ideas.

(ii) Eligible participants

The eligible participants of the New Scheme to whom Option(s) may be granted by the Board shall include any employees, Non-Executive Directors, Directors, advisors, consultants, and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities.

(iii) Maximum number of shares

(a) The total number of shares which may be issued upon exercise of all Options which may be granted under the New Scheme and any other share option schemes of the Company ("**Scheme Mandate Limit**") shall not exceed 10% of the total number of shares in issue as at the date on which the New Scheme will be approved and adopted by the shareholders, unless the Company obtains a refresh approval from the shareholders pursuant to paragraph (b) below. Options lapsed in accordance with the terms of the New Scheme shall not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.

(b) The Company may seek approval of the shareholders in general meetings to renew the Scheme Mandate Limit provided that the Scheme Mandate Limit so renewed must not exceed 10% of the shares in issue as at the date of the approval of the renewal by the shareholders. Upon any such renewal, all Options granted under the New Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the New Scheme and any other share option schemes of the Company and exercised options) prior to the approval of such renewal shall not be counted for the purpose of calculating whether the renewed Scheme Mandate Limit has been exceeded. In seeking the approval, the Company shall send a circular to the shareholders.

(c) The Company may grant Options to the eligible participant(s) beyond the Scheme Mandate Limit if the grant of such Options is specifically approved by the shareholders in general meeting. In seeking such approval, a circular must be sent to the shareholders containing a generic description of the identified eligible participant(s), the number and terms of the Options to be granted, the purpose of granting Options to the identified eligible participant(s), and how the terms of these Options serve such purpose.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Scheme and options which may be granted under any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time.

(iii) Maximum entitlement of each eligible participant

(a) The total number of shares issued and to be issued upon exercise of the Options granted under the New Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding Options) to each eligible participant in any 12-month period must not exceed 1% of the then total issued share capital of the Company (the "**Individual Limit**").

(b) Any further grant of Options to an eligible participant in excess of the Individual Limit (including exercised, cancelled and outstanding Options) in any 12-month period up to and including the date of such further grant must be subject to the shareholders' approval in general meeting of the Company with such eligible participant and his associates abstaining from voting. A circular must be sent to the shareholders disclosing the identity of the identified eligible participant(s), the number and terms of the Options granted and to be granted, the number and terms of Options to be granted to such identified eligible participant(s) must be fixed before the shareholders' approval and the date of meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price.

(iv) Offer acceptance period and option price

An offer of grant of an Option may be accepted by an eligible participant within 28 days from the date of the offer of grant of the Option. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an Option. To the extent that the offer of grant of an Option is not accepted within twenty-eight (28) days from the date on which the offer for the grant of Options is made in the manner indicated herein, it will be deemed to have been irrevocably declined and lapsed automatically.

(v) Timing for exercise of Options

An Option shall be exercisable in whole or in part and in accordance with the terms of the New Scheme at any time during a period to be determined and notified by the Directors to each Grantee, which period may commence on the day on which the offer for the grant of Options is made but shall end in any event not later than 10 years commencing from the date the Board makes an offer of the grant of an Option subject to the provisions for early termination thereof. The Directors have the discretion to impose a minimum period for which an Option has to be held before the exercise of the subscription rights attaching thereto on case by case basis.

(vi) Subscription price

Subject to the adjustment made in accordance with the terms of the New Scheme, the exercise price in respect of any particular Option shall be such price as determined by the Board in its absolute discretion at the time of making the offer of grant of an option (which shall be stated in the letter containing the offer of grant of an option) but in any case the exercise price must be at least the highest of (i) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

For the year ended 31 December 2017 and 2016, no Options have been granted by the Company under the Old Scheme and the New Scheme.

Connected Transactions

(i) Continuing connected transactions

During the year, the Group had the following continuing connected transactions which were required to be disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

On 30 December 2016, the Company and subsidiaries of the Company, save and except for Smartac Group Limited and its direct or indirect wholly or non-wholly owned subsidiaries ("**Contractor Group**"), entered into the Master Agreement with Smartac Group Limited and its direct or indirect wholly or non-wholly owned subsidiaries ("**Sub-Contractor Group**") in relation to the provision of sub-contracting services by the Sub-Contractor Group. The Sub-Contractor Group is directly owned by Virtual City Limited which in turn is owned as to 55.45% by the Company and 44.55% by CSS. Since Mr. Kwan Che Hang Jason, director and shareholder of the Company, is also the controlling shareholder of CSS, any company of the Sub-Contractor Group is therefore a connected person of the Company. As such, the transactions contemplated under the Master Agreement would constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The Master Agreement had a term of three years. According to the Master Agreement during the year, the aggregate services charged to the Contractor Group by the Sub-Contractor Group in respect of project management and installation service, software development service and maintenance service were RMB226,357 (2016: RMB214,200), nil (2016: RMB1,518,971) and nil (2016: RMB99,144) respectively.

Our INEDs have reviewed the continuing connected transactions set out above, and are of the view that the continuing connected transactions have been entered into under the following circumstances:

(i) in the ordinary and usual course of business;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms offered to/by independent third parties; and

(iii) in accordance with the relevant agreements governing those transactions on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

RSM Hong Kong was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 Auditors' Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. RSM Hong Kong has issued unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

In respect of the continuing connected transactions disclosed (the "**Disclosed Continuing Connected Transactions**"), the Company's auditors concluded that:

(i) nothing has come to their attention that causes them to believe that the Disclosed Continuing Connected Transactions have not been approved by the Company's board of directors.

(ii) for transactions involving the provision of services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

(iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(iv) with respect to the aggregate amount of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the Disclosed Continuing Connected Transactions have exceeded the annual cap disclosed in the Company's announcement dated 30 December 2016.

(ii) Connected transactions

On 5 January 2017, the Company through its non-wholly owned subsidiary, Smartac International Limited as vendor, entered into a conditional sale and purchase agreement with Mr. Tsang Anthony Koon Hung as purchaser (a director and the registered holder of 49% of the issued shares of Evolve Consulting Limited ("**Evolve**")), to dispose of the Group's entire 51% equity interests in Evolve and its subsidiary, which engaged in the provision of IT related services, at a cash consideration of HK$3,950,000 (equivalent to approximately RMB3,413,000) to avoid incurring further liability in Evolve, as well as restructuring the Group's business by consolidating all big data management business into another non-wholly owned subsidiary of the Company, Smartac Solutions (Suzhou) Limited.

Related Party Transactions

During the year ended 31 December 2017, the Group entered into transactions with related parties as set out in note 47 to the consolidated financial statements. Apart from the items disclosed in the section "Connected Transactions", all other material related party transactions did not constitute non-exempt connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 18 to 25.

Major Customers and Suppliers

For the year ended 31 December 2017, the aggregate revenue attributable to the largest customer and the five largest customers of the Group accounted for approximately 19% and 57% of the Group's total revenue for the year respectively; and the aggregate purchases from the largest and the five largest suppliers of the Group accounted for approximately 23% and 56% of the Group's total purchases for the year, respectively.

As far as the Directors are aware, none of the Directors of the Company, their respective associates (as defined in the Listing Rules), and the existing shareholders of the Company who own more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during the year.

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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. Details of responsibilities of directors for the consolidated financial statements are set out in the Independent Auditor's Report on page 48.

The Directors are responsible for the proper keeping of accounting record in order to secure assets of the Company and the Group. The Directors are also responsible for adopting reasonable measures to prevent and check any fraudulences and irregularities.

Business Review

The business review of the Group for the year ended 31 December 2017 is set out in the section headed "Management Discussion and Analysis" on pages 6 to 14 of this annual report which forms part of this Directors' Report.

Purchase, Sale or Redemption of Listed Securities

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

Pre-Emptive Rights

The is no provision for pre-emptive rights under the Company's 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

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

Non-Adjusting Events After the Reporting Period

There were no other material non-adjusting events after the reporting period.

Auditor

RSM Hong Kong retire, and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Hong Kong will be put at the forthcoming Annual General Meeting.

By order of the Board

Yang Xin Min
Executive Director

27 March 2018

Independent Auditor's Report

TO THE SHAREHOLDERS OF
SMARTAC GROUP CHINA HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

RSM Hong Kong
29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

Opinion

We have audited the consolidated financial statements of Smartac Group China Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 51 to 126, which comprise the consolidated statement of financial position as at 31 December 2017, 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 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") 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 Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional 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. The key audit matters we identified are:

1. Impairment assessment of goodwill and intangible assets of Online-to-Offline ("**O2O**") solutions segment;

2. Impairment assessment of goodwill and intangible assets of E-Commerce solutions segment; and

3. Accounting for termination of railway Wi-Fi operation agreements of Integrated Digital Marketing ("**IDM**") solutions segment.

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Impairment assessment of goodwill and intangible assets of O2O solutions segment	**Our procedures regarding management's assessment of goodwill and intangible assets of O2O solutions segment included:**
Refer to notes 5(ii)(c), 5(ii)(e), 23 and 24 to the consolidated financial statements	
The Group recorded goodwill and intangible assets arising from the acquisition of 51% equity interest in Virtual City Limited and its subsidiaries in 2013. Goodwill was allocated to the cash generating unit ("**CGU**") of software development and CGU of hardware installation respectively. The carrying amounts of goodwill and intangible assets amounting to RMB5,695,000 and RMB23,760,000 as at 31 December 2017 (before impairment loss for the year), wholly relating to CGU of software development. Goodwill is required to be tested for impairment on an annual basis. The O2O solutions segment recorded operating loss of RMB16,193,000 (before tax and impairment loss) for the year ended 31 December 2017. This indicated that the carrying amounts of goodwill and intangible assets under the O2O solutions segment may be impaired. Impairment losses of RMB5,695,000 and RMB23,760,000 were made to reduce the carrying amount of goodwill and intangible assets to their recoverable amounts for the year ended 31 December 2017. The recoverable amount was determined on the basis of value in use model that required significant management judgement in making assumptions about budgeted revenues, profit margins, growth rates and in selecting appropriate market discount rates.	• Evaluating the independent external valuer's competence, capabilities and objectivity; • Assessing the integrity of the value in use model; • Challenging the reasonableness of management's key assumptions based on our knowledge of the business and the industry; • Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets; • Assessing the appropriateness of the discount rates used with the assistance of our internal valuation specialists; and • Assessing the adequacy of the disclosures in relation to the impairment assessment.

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Impairment assessment of goodwill and intangible assets of E-Commerce solutions segment Refer to notes 5(ii)(c), 5(ii)(e), 23, 24 and 43(d) to the consolidated financial statements The Group recorded goodwill of approximately RMB59,883,000 and intangible assets of approximately RMB40,166,000 arising from the acquisition of 51% equity interest in LCE Group Limited and its subsidiaries ("**LCE Group**") on 28 December 2017. In determining the fair value of the aggregate net assets of LCE Group acquired at date of acquisition and the corresponding amount of goodwill, the Group adopted a valuation on purchase price allocation of LCE Group prepared by an independent external valuer which involved significant management judgement in making assumptions about budgeted revenue, profit margins, growth rates, and in selecting an appropriate market discount rates as well as management assessment on achieving the target profits and related fair value of consideration shares. Goodwill was allocated wholly to the CGU of e-commerce solutions business which become the Group's new operating segment. Goodwill is required to be tested for impairment on an annual basis with reference to the recoverable amount of the CGU of which the assets belong. Intangible asset was mainly the fair value of customer relationship relating to contracts signed with some major existing customers who are fashion brand owners at date of acquisition and are amortised over six years. The directors determine that the recoverable amount of the CGU as at 31 December 2017 was higher than the carrying amounts of goodwill, intangible assets and other assets belong to this CGU.	**Our procedures regarding management's assessment of goodwill and intangible assets of E-Commerce solutions segment included:** • Evaluating the independent external valuer's competence, capabilities and objectivity; • Assessing the integrity of the value in use model; • Challenging the reasonableness of management's key assumptions based on our knowledge of the business and the industry; • Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets; • Assessing the appropriateness of the discount rates used with the assistance of our internal valuation specialists; and • Assessing the adequacy of the disclosures in relation to the impairment assessment.

Key Audit Matter	How our audit addressed the Key Audit Matter
3. Accounting for termination of railway Wi-Fi operation agreements of IDM solutions segment Refer to note 34 to the consolidated financial statements At 31 December 2016, the Group had made a provision for onerous contracts of RMB50,575,000 relating to the lease payment contracted with the service providers for providing wireless networks at railway stations in the PRC. On 28 June 2017, the Group entered into termination agreements mutually with these service providers regarding the withdrawal of the railway Wi-Fi operations for all railway stations due to unexpected delay and difficulties in installation work at certain major railway stations which adversely affected the expected income from the project. Pursuant to the terms of the termination agreements, all liabilities and commitments previously due and to be due were waived by both parties and considered settled and concluded on 28 June 2017. Hence, the Group reversed the above provision of RMB50,575,000 and also derecognised the payable amount of totalling RMB23,443,000 due to these service providers.	**Our procedures regarding the accounting for termination of railway Wi-Fi operation agreements of IDM solutions segment included:** • Reviewing the termination agreement signed by the subsidiary and the vendors to identify any compensation or penalties arising from the termination; • Discussing with management the reason for withdrawal and any consequent events arising from the withdrawal; and • Receiving direct confirmations from these vendors to confirm no compensation or penalties were due when the termination agreements were signed.

Other Information

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report 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.

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chris Wong Wo Cheung.

RSM Hong Kong
Certified Public Accountants
Hong Kong
27 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	**2017** **RMB'000**	2016 RMB'000
Revenue	*8*	**15,693**	24,319
Fair value gain of investment properties	*20*	**2,600**	3,700
Other income	*9*	**6,721**	7,311
Hardware, telecom and direct operation costs		**(8,208)**	(14,658)
Employee benefits expenses		**(18,763)**	(34,591)
Other operating expenses		**(25,822)**	(26,172)
Depreciation		**(2,341)**	(3,131)
Amortisation of intangible assets	*24*	**(12,144)**	(9,027)
Amortisation of long-term prepayments	*27*	**–**	(20,811)
Impairment loss on available-for-sale financial assets	*28*	**–**	(1,600)
Impairment loss on intangible assets	*23(b)*	**(23,760)**	–
Impairment loss on non-current assets	*19(c)*	**–**	(6,529)
Impairment loss on goodwill	*23*	**(5,695)**	(26,052)
Write-back of other payables		**23,443**	–
Reversal/(provision) for onerous contracts	*34*	**50,575**	(50,575)
Provision for capital gain tax	*33(b)*	**(5,581)**	–
Gain on disposal of subsidiaries	*43(c)*	**3,959**	46
Loss on de-registration of subsidiaries		**(378)**	–
Profit/(loss) from operations		**299**	(157,770)
Finance costs	*11*	**(792)**	(888)
Share of result of an associate	*26*	**(433)**	(524)
Loss before tax		**(926)**	(159,182)
Income tax (expense)/credit	*12*	**(4,740)**	1,284
Loss for the year	*13*	**(5,666)**	(157,898)
Other comprehensive income for the year, net of tax			
Items that may be reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries	*43*	**(38)**	(51)
Exchange differences reclassified to profit or loss on de-registration of subsidiaries		**177**	–
Exchange differences on translating foreign operations		**(5,669)**	2,170
Total comprehensive income for the year		**(11,196)**	(155,779)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	**2017 RMB'000**	2016 RMB'000
Profit/(loss) for the year attributable to:			
Owners of the Company		**15,738**	(146,762)
Non-controlling interests		**(21,404)**	(11,136)
		(5,666)	(157,898)
Total comprehensive income for the year attributable to:			
Owners of the Company		**9,945**	(144,329)
Non-controlling interests		**(21,141)**	(11,450)
		(11,196)	(155,779)
EARNINGS/(LOSS) PER SHARE			
Basic (cents)	*18(a)*	**0.33**	(3.66)
Diluted (cents)	*18(b)*	**0.33**	(3.66)

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	19	**8,793**	10,728
Investment properties	20	**56,600**	54,000
Construction in progress	21	**13**	–
Prepaid land lease payments	22	**2,062**	2,118
Goodwill	23	**59,883**	5,695
Intangible assets	24	**40,166**	38,920
Investment in an associate	26	**3,047**	3,480
Long-term prepayments	27	**–**	–
Available-for-sale financial assets	28	**1,800**	–
		172,364	114,941
Current assets			
Prepaid land lease payments	22	**56**	56
Other investments	29	**1,000**	4,000
Inventories	30	**1,857**	1,339
Trade and other receivables	31	**49,488**	27,180
Due from related parties	47(c)	**744**	–
Due from non-controlling interest	35	**20**	–
Pledged bank deposits	32	**19**	592
Cash and cash equivalents	32	**20,532**	99,953
		73,716	133,120
Current liabilities			
Trade and other payables	33	**25,460**	36,452
Provision for onerous contracts	34	**–**	50,575
Contingent shares payables	37	**5,941**	–
Due to directors	35	**96**	248
Due to related parties	47(c)	**5,487**	–
Bank loans	36	**10,500**	15,000
Current tax liabilities		**4,578**	92
		52,062	102,367
Net current assets		**21,654**	30,753
Total assets less current liabilities		**194,018**	145,694

	Note	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Contingent shares payables	*37*	**20,547**	–
Deferred tax liabilities	*38*	**22,991**	8,207
		43,538	8,207
NET ASSETS		**150,480**	137,487
Capital and reserves			
Share capital	*39*	**214,067**	214,067
Reserves	*41(a)*	**(111,296)**	(121,774)
Equity attributable to owners of the Company		**102,771**	92,293
Non-controlling interests		**47,709**	45,194
TOTAL EQUITY		**150,480**	137,487

Approved by the Board of Directors on 27 March 2018 and are signed on its behalf by:

Yang Zhen
Director

Kwan Che Hang Jason
Director

	Attributable to owners of the Company										
	Share capital RMB'000 (note 39)	Share premium account RMB'000 (note 41(b)(i))	Statutory reserve RMB'000 (note 41 (b)(ii))	Share-based payment reserve* RMB'000 (note 41 (b)(iii))	Foreign currency translation reserve RMB'000 (note 41 (b)(iv))	Capital reserve RMB'000 (note 41 (b)(v))	Other reserve RMB'000 (note 41 (b)(vi))	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests ("NCI") RMB'000	Total RMB'000
At 1 January 2016	178,589	1,038,509	172	1,336	(96,432)	(9,619)	(8,385)	(941,869)	162,301	59,055	221,356
Total comprehensive income for the year	–	–	–	–	2,433	–	–	(146,762)	(144,329)	(11,450)	(155,779)
Disposal of a subsidiary (note 43(a))	–	–	–	–	–	–	–	–	–	(284)	(284)
Issue of new shares upon placement (note 39(a))	35,478	36,715	–	–	–	–	–	–	72,193	–	72,193
Disposal of interest to NCI (note 43(b))	–	–	–	–	65	–	–	1,972	2,037	(2,036)	1
Deemed acquisition of NCI	–	–	–	–	–	–	–	91	91	(91)	–
Lapse of share options granted in prior years	–	–	–	(1,336)	–	–	–	1,336	–	–	–
Changes in equity for the year	35,478	36,715	–	(1,336)	2,498	–	–	(143,363)	(70,008)	(13,861)	(83,869)
At 31 December 2016 and 1 January 2017	214,067	1,075,224	172	–	(93,934)	(9,619)	(8,385)	(1,085,232)	92,293	45,194	137,487
Total comprehensive income for the year	–	–	–	–	(5,793)	–	–	15,738	9,945	(21,141)	(11,196)
Disposal of subsidiaries (note 43(c))	–	–	–	–	–	–	–	–	–	(182)	(182)
Acquisition of subsidiaries (note 43(d))	–	–	–	–	–	–	–	–	–	23,985	23,985
Deemed acquisition of NCI	–	–	–	–	–	–	–	518	518	(518)	–
Change of NCI without change in control	–	–	–	–	–	–	–	–	–	86	86
Contribution by NCI	–	–	–	–	–	–	–	15	15	285	300
Changes in equity for the year	–	–	–	–	(5,793)	–	–	16,271	10,478	2,515	12,993
At 31 December 2017	214,067	1,075,224	172	–	(99,727)	(9,619)	(8,385)	(1,068,961)	102,771	47,709	150,480

* All share options had been lapsed on 13 June 2016.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(926)**	(159,182)
Adjustments for:			
Depreciation		**2,341**	3,131
Amortisation of prepaid land lease payments		**56**	56
Amortisation of intangible assets		**12,144**	9,027
Amortisation of long-term prepayments		**–**	20,811
Interest income		**(36)**	(211)
Interest expenses on bank loans wholly repayable within five years		**792**	888
Allowance for inventories		**764**	438
Reversal of allowance for trade receivables		**(45)**	(12)
Allowance for trade receivables		**462**	153
Impairment loss on other receivables		**158**	2,683
Impairment loss on intangible assets		**23,760**	–
Impairment loss on non-current assets		**–**	6,529
Impairment loss on goodwill		**5,695**	26,052
Impairment loss on available-for-sale financial assets		**–**	1,600
Write-off of property, plant and equipment		**645**	132
Write-off of construction in progress		**–**	48
Write-off of intangible assets		**3,000**	1,392
Write-off of other receivables		**59**	–
Write-back of other payables		**(23,443)**	–
Change in fair value of investment properties		**(2,600)**	(3,700)
Share of result of an associate		**433**	524
Loss/(gain) on disposal of property, plant and equipment		**73**	(23)
Gain on disposal of construction in progress		**–**	(723)
Gain on disposal of intangible assets		**–**	(948)
Gain on disposal of subsidiaries		**(3,959)**	(46)
Loss on de-registration of subsidiaries		**378**	–
Provision for capital gain tax		**5,581**	–
(Reversal)/provision for onerous contracts		**(50,575)**	50,575
Operating loss before working capital changes		**(25,243)**	(40,806)
(Increase)/decrease in inventories		**(78)**	815
Decrease/(increase) in trade and other receivables		**728**	(472)
Increase in due from non-controlling interest		**(20)**	–
(Increase)/decrease in due from related parties		**(744)**	726
Decrease/(increase) in trade and other payables		**999**	(11,877)
Decrease in due to directors		**(152)**	(6,326)
Increase/(decrease) in due to related parties		**122**	(127)
Cash used in operating activities		**(24,388)**	(58,067)
Income taxes refund/(paid)		**19**	(251)
Net cash used in operating activities		**(24,369)**	(58,318)

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in pledged bank deposits		**573**	(592)
Acquisition of subsidiaries, net of cash acquired	*43(d)*	**(48,987)**	–
Receipt of other investments		**4,013**	24,190
Purchase of other investments		**(1,000)**	(4,000)
Purchase of available-for-sale financial assets		**(1,800)**	(1,600)
Disposals of subsidiaries, net of cash	*43(c) (a)*	**3,412**	(522)
Purchases of property, plant and equipment		**(1,068)**	(217)
Payment for amount due to an associate		**–**	(9,625)
Proceeds from disposal of intangible assets		**–**	950
Proceeds from disposal of construction in progress		**–**	723
Proceeds from disposal of property, plant and equipment		**38**	256
Payment for construction in progress		**(13)**	(6,943)
Payment for intangible assets		**–**	(10,992)
Bank interests received		**23**	31
Net cash used in investing activities		**(44,809)**	(8,341)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(15,000)**	(22,868)
Bank loans raised		**10,500**	20,500
Contribution by non-controlling interest		**300**	–
Proceeds from issue of shares, net		**–**	72,193
Due to related parties		**500**	–
Interests and other finance cost paid		**(792)**	(888)
Net cash (used in)/generated from financing activities		**(4,492)**	68,937
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(73,670)**	2,278
Effect of foreign exchange rate changes		**(5,751)**	2,160
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**99,953**	95,515
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**20,532**	99,953
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	*32*	**20,532**	99,953

1. General Information

Smartac Group China Holdings Limited (the "**Company**") was incorporated on 18 July 2000 in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is Room 1204,12th Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 25 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2017, Mr. Yang Xin Min is the ultimate controlling party of the Company.

2. Basis Of Preparation

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standard Board (the "**IASB**"). IFRSs comprise International Financial Reporting Standards ("**IFRS**"); International Accounting Standards ("**IAS**"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. Adoption Of New And Revised International Financial Reporting Standards

(a) Application of new and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these impact on the accounting policies of the Group.

3. Adoption Of New And Revised International Financial Reporting Standards (Continued)

(a) Application of new and revised IFRSs (Continued)

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided this information in note 43(e).

(b) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2017. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRS Standards 2015 to 2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

3. Adoption Of New And Revised International Financial Reporting Standards (Continued)

(b) New and revised IFRSs in issue but not yet effective (Continued)

IFRS 9 Financial Instruments

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

(a) Classification and measurement

The Group expects to irrevocably designate those listed and unlisted equity securities currently classified as available-for-sale to be fair value through other comprehensive income.

Fair value gains and losses on these instruments will no longer be recycled to profit or loss on disposal. Impairment losses on debt securities will be measured applying the general impairment model in IFRS 9 as described in (b) below and recognised in profit or loss. Impairment losses on equity securities will no longer be recognised in profit loss but rather in other comprehensive income. In addition, the Group currently measures certain unlisted equity securities at cost less impairment. Under IFRS 9 these instruments will be measured at fair value.

(b) Impairment

IFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. The Group has not completed its assessment of the full impact of adopting IFRS 9 and therefore its possible impacts on the Group's operating results and financial position have not been quantified.

3. Adoption Of New And Revised International Financial Reporting Standards (Continued)

(b) New and revised IFRSs in issue but not yet effective (Continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers and replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction Contracts, which specifies the accounting for revenue from construction contracts.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

3. Adoption Of New And Revised International Financial Reporting Standards (Continued)

(b) New and revised IFRSs in issue but not yet effective (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

(a) Timing of revenue recognition (Continued)

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

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from the provision of services.

For contracts with customers in which the sale of finished goods is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue or profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under IFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 45, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to RMB2,799,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

4. Significant Accounting Policies

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. investment properties and certain financial instruments that are measured at fair value).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

4. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4. Significant Accounting Policies (Continued)

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**") which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group. The functional currency of the Company is Hong Kong dollars ("**HK$**"). The directors consider that choosing RMB as the presentation currency best suits the need of shareholders and investors.

4. Significant Accounting Policies (Continued)

(d) Foreign currency translation (Continued)

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form the part of the net investment in foreign entities and of borrowings are recognised in the other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment including buildings for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

4. Significant Accounting Policies (Continued)

(e) Property, plant and equipment (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings and leasehold improvement	3.33% – 33.33%, over the lease term
Machinery and equipment	4.55% – 25%
Office equipment and fixtures	12.5% – 33.33%, over the lease term
Motor vehicles	12.5% – 25%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(f) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment properties are stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment properties are recognised in profit or loss for the period in which they arise.

The gain or loss on disposal of investment properties is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

(g) Operating leases

(i) The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Prepaid land lease payments are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

4. Significant Accounting Policies (Continued)

(g) Operating leases (Continued)

(ii) The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(h) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's software development is recognised only if all of the following conditions are met:

– An asset is created that can be identified (such as software and new processes);

– It is probable that the asset created will generate future economic benefits; and

– The development cost of the asset can be measured reliably.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(i) Intangible assets acquired in a business combination and acquired separately

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Amortisation of intangible assets is charged to profit or loss on a straight line basis over their estimated useful lives as follows:

Customers relationship	6 years
Computer software	5 years
Software development costs	5 years

Both the period and method of amortisation are reviewed annually.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods comprises all cost of purchase and other cost incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4. Significant Accounting Policies (Continued)

(k) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

(l) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss.

4. Significant Accounting Policies (Continued)

(l) Financial assets (Continued)

(ii) Available-for-sale financial assets (Continued)

Investments in equity instruments 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 instruments, are measured at cost less impairment losses.

(m) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(n) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

(o) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out in (p) to (s) below.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(q) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Contingent shares payables

Contingent shares payables are classified as financial liabilities as they are resulted from a contract under contingent consideration arrangement. The amount is initially recognised and subsequently measured at fair value. Change in fair value is recognised in profit or loss when it arises.

(s) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. Significant Accounting Policies (Continued)

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Service fee income

Service fee income is recognised when the services are rendered.

(ii) Rental income

Rental income is recognised on a straight-line basis over the lease term.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) Commission income

Commission income is recognised when the services are rendered and have rights to receive as income.

(v) Sales of goods

Revenue from the sales of finished goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(u) Employee benefits

(i) Employee leaves entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

Obligation for contributions to the local government of the People's Republic of China (the "**PRC**") defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(iii) Termination benefits

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

4. Significant Accounting Policies (Continued)

(v) Share-based payments

The Group issued equity-settled share-based payments to certain directors and employees.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(y) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and 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.

4. Significant Accounting Policies (Continued)

(y) Taxation (Continued)

Deferred tax is recognised on 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, unused tax losses or unused tax credits can be utilised. Such 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment properties are depreciable and are held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties is measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(z) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

4. Significant Accounting Policies (Continued)

(z) Impairment of non-financial assets (Continued)

Value in use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(aa) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

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

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

(ab) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 expenditures 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 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 is remote.

4. Significant Accounting Policies (Continued)

(ac) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Critical Judgement and Key Estimates

(i) Critical judgement in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Contingent liabilities

As described in note 48 to the consolidated financial statements, the Company acquired 51% equity interest in LCE Group Limited ("**LCE**") and its subsidiaries (collectively referred to as "**LCE Group**") during the year. Neither the Company nor the vendor has reported the transaction to the relevant tax authority. The tax authorities however could impose penalty on unpaid EIT according to the relevant PRC laws and regulations. The directors, after consulting the Group's PRC legal counsel, are of opinion that a provision of RMB5,581,000 calculated based on the cash consideration paid to the vendor as of 31 December 2017 should be made, and considered that the risk of having a penalty imposed by the PRC tax authorities is reasonably low. The penalty is disclosed as contingent liabilities.

(b) Deferred tax for investment properties

For the purpose of measuring deferred tax for investment properties that are measured using the fair value model, the directors have reviewed the Group's investment properties portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the directors have adopted the presumption that investment properties measured using the fair value model is recovered through sale is rebutted.

(ii) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of 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 discussed below.

(a) Depreciation and impairment on property, plant and equipment and construction in progress

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

5. Critical Judgement And Key Estimates (Continued)

(ii) Key sources of estimation uncertainty (Continued)

(a) Depreciation and impairment on property, plant and equipment and construction in progress (Continued)

The Group assesses whether property, plant and equipment and construction in progress have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment and construction in progress have been determined based on value in use calculations of each CGU the property, plant and equipment and construction in progress belonged, which requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. No impairment loss was recognised for the year ended 31 December 2017 as the recoverable amount exceeded the carrying amount of the property, plant and equipment of the CGUs belonged.

The carrying amount of property, plant and equipment and construction in progress as at 31 December 2017 was RMB8,793,000 (2016: RMB10,728,000) and RMB13,000 (2016: nil) respectively.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

During the year, RMB4,740,000 (2016: RMB1,284,000 credited) of income tax was charged to profit or loss based on the estimated assessable profit.

(c) Impairment on 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. Changes in assumptions and estimates used may have a significant effect on the consolidated income statement and consolidated financial position.

The carrying amount of goodwill at 31 December 2017 was approximately RMB59,883,000 (2016: RMB5,695,000) after an impairment loss of RMB5,695,000 (2016: RMB26,052,000) was recognised during the year in relation to the CGU of software development. Details of the impairment loss calculation are provided in note 23(b) to the consolidated financial statements.

(d) Fair values of investment properties

The Group appointed an independent external valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation and inputs used are reflective of the current market conditions.

The carrying amount of investment properties as at 31 December 2017 was RMB56,600,000 (2016: RMB54,000,000) after recognition of the fair value gain of RMB2,600,000 (2016: RMB3,700,000) to the profit or loss during the year.

5. Critical Judgement And Key Estimates (Continued)

(ii) Key sources of estimation uncertainty (Continued)

(e) Amortisation and impairment on intangible assets

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. The useful lives of intangible assets are assessed to be either finite or indefinite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with a finite useful life are reviewed by the management at least once at the end of each reporting period. The Group assesses whether any indication of impairment in accordance with the accounting policy. The recoverable amounts of intangible assets have been determined based on value in use calculations of each CGU the intangible assets belonged which 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.

Impairment loss of RMB23,760,000 was recognised for the year ended 31 December 2017. The carrying amount of intangible assets as at 31 December 2017 was RMB40,166,000 (2016: RMB38,920,000).

(f) Allowance for trade and other receivables

The Group makes allowance for trade and other receivables based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Allowances arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

During the year, allowance for trade and other receivables net of reversal of RMB575,000 (2016: RMB2,824,000) was recognised in profit or loss. The carrying amount of trade and other receivables as at 31 December 2017 was RMB49,488,000 (2016: RMB27,180,000).

(g) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

At 31 December 2017, RMB764,000 of allowance for slow-moving inventories was recognised in profit or loss (2016: RMB438,000).

6. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, price risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HK$, RMB and United States dollars ("**US$**"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2017, if the RMB had weakened 5 per cent against the HK$ with all other variables held constant, consolidated loss after tax for the year would have been RMB254,000 higher, (2016: RMB141,000 lower) arising mainly as a result of the foreign exchange difference on bank and cash balances and other payables denominated in HK$/RMB other than the functional currencies the Group operates, i.e. RMB/HK$. If the RMB had strengthened 5 per cent against the HK$ with all other variables held constant, consolidated loss after tax for the year would have been RMB254,000 lower (2016: RMB141,000 higher), arising mainly as a result of the foreign exchange difference on bank and cash balances and other payables denominated in HK$/RMB other than the functional currencies the Group operates, i.e. RMB/HK$.

(b) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. In order to minimise credit risk, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

At 31 December 2017, the Group has a certain concentration of credit risk as 15% (2016: 32%) and 64% (2016: 83%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors as at 31 December 2017 respectively. The Group does not hold any collateral over these balances.

It has policies in place to ensure that revenue are earned from customers with an appropriate credit history. The amounts due from related parties are closely monitored by the other directors.

(ii) Deposits with banks and cash balance and other investments

The credit risk on bank and cash balances and other investments are limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

6. Financial Risk Management (Continued)

(c) Price risk

The Group is exposed to equity price risk mainly through its contingent shares to be granted. The Group's equity price risk is mainly concentrated on its own shares quoted on the Stock Exchange.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period.

If equity prices had been 10% higher/lower, consolidated loss after tax for the year ended 31 December 2017 would increase/decrease by RMB2,649,000. This is mainly due to the changes in fair value of contingent shares payables.

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative of financial liabilities is as follows:

	The Group			
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At 31 December 2017				
Trade and other payables	**25,460**	**–**	**–**	**25,460**
Due to directors	**96**	**–**	**–**	**96**
Due to related companies	**5,510**	**–**	**–**	**5,510**
Bank loans	**10,756**	**–**	**–**	**10,756**
Contingent shares payables	**5,941**	**8,471**	**12,076**	**26,488**
At 31 December 2016				
Trade and other payables	36,452	–	–	36,452
Provision for onerous contracts	50,575	–	–	50,575
Due to directors	248	–	–	248
Bank loans	15,414	–	–	15,414

(e) Interest rate risk

The Group's exposure to interest rate risk arises from its bank balances and short-term bank loans. These balances bear interests at variable rates that vary with the then prevailing market condition.

At 31 December 2017, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, consolidated loss after tax for the year would have been RMB60,000 lower/higher (2016: RMB865,000 lower/higher), arising mainly as a result of higher/lower interest income/expenses on bank deposits and bank loans.

6. Financial Risk Management (Continued)

(e) Interest rate risk (Continued)

Other than the bank balances and bank loans as mentioned above, the Group's deposits, other investments and a short-term bank loan bears interest at fixed interest rate and therefore are subject to fair value interest rate risks.

(f) Categories of financial instruments at 31 December:

	2017 RMB'000	2016 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**57,814**	130,016
Available-for-sale financial assets	**1,800**	–
Financial liabilities:		
Financial liabilities at amortised cost	**40,810**	101,528
Contingent shares payables	**26,488**	–

(g) Fair values

Except as disclosed in note 28 to the consolidated financial statements, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

7. Fair Value Measurements (Continued)

(a) Disclosure of level in fair value hierarchy:

Description	Fair value measurements as at 31 December 2017 using:			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurement:				
Investment properties				
– Commercial PRC (note 20)	–	–	56,600	56,600
Financial liabilities				
– Contingent shares payables (note 37)	–	–	26,488	26,488

Description	Fair value measurements as at 31 December 2016 using:			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurement:				
Investment properties				
– Commercial PRC (note 20)	–	–	54,000	54,000

(b) Reconciliation of assets/liabilities measured at fair value based on level 3:

Description	Assets/(liabilities) at fair value through profit or loss		
	Investment properties RMB'000	Contingent shares payables RMB'000	2017 Total RMB'000
At 1 January 2017	54,000	–	54,000
Contingent shares granted upon acquisition of subsidiaries (note 43(d))	–	(26,488)	(26,488)
Total gains or losses recognised in profit or loss (#)	2,600	–	2,600
At 31 December 2017	56,600	(26,488)	30,112
(#) Include gains or losses for assets held at end of reporting period	2,600	–	2,600

Description	Assets at fair value through profit or loss
	2016 Investment properties RMB'000
At 1 January 2016	50,300
Total gains or losses recognised in profit or loss (#)	3,700
At 31 December 2016	54,000
(#) Include gains or losses for assets held at end of reporting period	3,700

7. Fair Value Measurements (Continued)

(b) Reconciliation of assets/liabilities measured at fair value based on level 3: (Continued)

The total gains or losses recognised in profit or loss including those assets and liabilities at end of reporting period are presented in the face (2016: face) of the consolidated statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2017:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value	
					2017 RMB'000 asset/(liabilities)	2016 RMB'000 asset/(liabilities)
Investment properties – Commercial PRC	Income capitalisation approach	Yield	4%-6% (2016: 4%-5.5%)	Higher of the yield, lower of fair value	**56,600**	54,000
		Market rent	Monthly office rental RMB40/sq.m. (2016: RMB30/sq.m.)	Higher of the market rent, higher of fair value		
			Monthly car-park space RMB150-250/unit (2016: RMB132-220/unit)			
Contingent shares payables	Weighted-average probability approach	Probability-adjusted profits	RMB14.9 million to RMB40.3 million	Higher of the net profit, higher of the fair value	**(26,488)**	–

8. Revenue

An analysis of the Group's revenue for the year as follows:

	2017 RMB'000	2016 RMB'000
Sales of hardware, software and IT system	**4,793**	3,851
Consultation and maintenance service income	**8,565**	16,939
Service income	**1,131**	3,529
Commission income and related sales	**1,204**	–
	15,693	24,319

9. Other Income

	2017 RMB'000	2016 RMB'000
Bank interest income	**23**	31
Interest on other investments	**13**	180
Government grants	**1,304**	770
Net foreign exchange gain	**–**	735
Gross rental income from investment properties	**2,782**	2,148
Property management and related income	**1,254**	–
Value-added tax refund	**525**	774
Gain on disposal of property, plant and equipment	**–**	23
Gain on disposal of construction in progress	**–**	723
Gain on disposal of intangible assets	**–**	948
Others	**820**	979
	6,721	7,311

10. Segment Information

The Group has three (2016: two) reportable segments as follows:

(i)	Online to Offline ("**O2O**") solutions segment	–	Sale of software and provision of O2O consultation service
(ii)	Integrated digital marketing ("**IDM**") solutions segment	–	Provision of digital advertising platform and related solutions
(iii)	E-Commerce solutions segment	–	Provision of marketing strategy and management of operation of online shop on e-commerce platform.

O2O solutions segment is attributable to Virtual City Limited ("**VCL**") and its subsidiaries.

IDM solutions segment is attributable to Tosun Limited and its subsidiaries.

E-Commerce solutions segment is attributable to LCE Group, which was acquired on 28 December 2017 (note 43(d)).

10. Segment Information (Continued)

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Each of the above operating segments corresponds to related subsidiaries engaging in the respective segment activities.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include corporate income and expenses. Segment assets do not include corporate assets. Segment liabilities do not include corporate liabilities.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

(i) Information about reportable segments profit or loss, assets and liabilities:

	O2O solutions segment		IDM solutions segment		E-Commerce solutions segment		Total	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Year ended 31 December								
Revenue from external customers	**13,358**	20,771	**2,335**	3,548	**–**	–	**15,693**	24,319
Segment (loss)/profit	**(50,388)**	(46,582)	**60,427**	(103,262)	**–**	–	**10,039**	(149,844)
Interest revenue	**12**	25	**10**	6	**–**	–	**22**	31
Interest expense	**792**	888	**–**	–	**–**	–	**792**	888
Depreciation and amortisation	**13,686**	11,241	**704**	14,300	**–**	–	**14,390**	25,541
Share of result of an associate	**–**	–	**(433)**	(524)	**–**	–	**(433)**	(524)
Income tax expense/(credit)	**4,740**	(1,284)	**–**	–	**–**	–	**4,740**	(1,284)
Other material non-cash items:								
Write-back of other payables	**–**	–	**23,443**	–	**–**	–	**23,443**	–
Reversal/(provision) for onerous contract	**–**	–	**50,575**	(50,575)	**–**	–	**50,575**	(50,575)
Impairment on goodwill	**5,695**	26,052	**–**	–	**–**	–	**5,695**	26,052
Impairment on intangible assets	**23,760**	–	**–**	–	**–**	–	**23,760**	–
Impairment on non-current assets	**–**	–	**–**	6,529	**–**	–	**–**	6,529
Additions to segment non-current assets	**443**	11,558	**609**	71,416	**–**	–	**1,052**	82,974
At 31 December								
Segment assets	**76,471**	121,774	**30,125**	35,717	**135,623**	–	**242,219**	157,491
Segment liabilities	**(29,106)**	(29,734)	**(4,370)**	(79,007)	**(26,792)**	–	**(60,268)**	(108,741)
Investment in an associate	**–**	–	**3,047**	3,480	**–**	–	**3,047**	3,480

10. Segment Information (Continued)

(ii) Reconciliations of reportable segments revenue and profit or loss:

	2017 RMB'000	2016 RMB'000
Revenue		
Consolidated revenue	**15,693**	24,319
Profit or loss		
Total profit/(loss) of reportable segments	**10,039**	(149,844)
Unallocated amounts:		
Unallocated head office and corporate expenses	**(10,124)**	(8,054)
Provision for capital gain tax	**(5,581)**	–
Consolidated loss for the year	**(5,666)**	(157,898)

Reconciliations of reportable segments assets and liabilities:

	2017 RMB'000	2016 RMB'000
Assets		
Total assets of reportable segments	**242,219**	157,491
Unallocated amounts:		
Unallocated head office and corporate assets	**3,861**	90,570
Consolidated total assets	**246,080**	248,061
Liabilities		
Total liabilities of reportable segments	**60,268**	108,741
Unallocated amounts:		
Contingent shares payables	**26,488**	–
Unallocated head office and corporate liabilities	**8,844**	1,833
Consolidated total liabilities	**95,600**	110,574

10. Segment Information (Continued)

(iii) Geographical information:

Revenue

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	2017 RMB'000	2016 RMB'000
PRC except Hong Kong	**13,706**	20,150
Hong Kong	**1,987**	4,154
Macau	**–**	15
Consolidated total revenue	**15,693**	24,319

In presenting the geographical information, revenue is based on the locations of the customers.

The Group's non-current assets are substantially located in the PRC.

(iv) Revenue from major customers:

	2017 RMB'000	2016 RMB'000
Customer A	**3,026**	4,989
Customer B	**2,190**	2,846
Customer C	**1,595**	–
Customer D	**1,492**	–

Each of the major customers represents a single external customer whose sale transaction is generated from O2O solutions segment of the Group.

11. Finance Costs

	2017 RMB'000	2016 RMB'000
Interest expenses on bank loans wholly repayable within five years	**792**	888

12. Income Tax Expense/(Credit)

Income tax has been recognised in profit or loss as following:

	2017 RMB'000	2016 RMB'000
Current tax – PRC enterprise income tax ("**EIT**")		
Provision for the year	1	–
Over-provision in prior year	(26)	(817)
	(25)	(817)
Deferred tax (note 38)		
Provision for the year	4,765	(467)
	4,765	(467)
Income tax expense/(credit)	4,740	(1,284)

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision for Hong Kong profits tax is required since the Group has no assessable profit for the years ended 31 December 2017 and 2016.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/regions in which the Group's subsidiaries operate, based on existing legislation, interpretation and practices in respect thereof.

One of the Group's subsidiaries operating in Suzhou, the PRC, was recognised as an advance technology enterprise (高新技術企業) in 2011 and was entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2011. In order to enjoy the preferential rate of 15%, the subsidiary was required to apply for renewal every three years from first year of approval. In 2014, the subsidiary had renewed its status and was entitled the preferential rate of 15% for the years ended 31 December 2014, 2015 and 2016. The EIT rate has been changed to 25% from the year ended 31 December 2017 onwards upon expiry of the concession.

12. Income Tax Expense/(Credit) (Continued)

The reconciliation between the income tax expense/(credit) and the product of loss before tax multiplied by the PRC EIT rate is as follows:

	2017 **RMB'000**	2016 RMB'000
Loss before tax	**(926)**	(159,182)
Tax at the PRC EIT rate of 25% (2016: 25%)	**(232)**	(39,796)
Tax effect of income that is not taxable	**(21,640)**	(654)
Tax effect of expenses that are not deductible	**12,732**	30,241
Tax effect of temporary differences and tax losses not recognised	**6,609**	7,049
Tax effect of utilisation of tax losses not previously recognised	**45**	(8)
Tax effect of tax concession	**–**	–
Over-provision in prior years	**(26)**	(817)
Increment in deferred taxes resulting from increment in tax rate (note 38)	**5,557**	–
Tax effect of different tax rates of subsidiaries	**1,695**	2,701
Income tax expense/(credit)	**4,740**	(1,284)

13. Loss For The Year

The Group's loss for the year is stated after charging/(crediting) the following:

	2017 RMB'000	2016 RMB'000
Allowance for trade receivables#	462	153
Reversal of allowance for trade receivables#	(45)	(12)
Allowance for inventories#	764	438
Amortisation of intangible assets	12,144	9,027
Amortisation of prepaid land lease payments#	56	56
Auditor's remuneration#		
– Audit services		
– Current year	1,555	1,160
– Over-provision in prior year	–	(232)
– Other services	1,253	52
	2,808	980
Cost of inventories sold	1,063	4,577
Depreciation	2,341	3,530
Less: amount capitalised in software development costs	–	(399)
	2,341	3,131
Direct operating expenses of investment properties that generate rental income	1,206	1,265
Loss/(gain) on disposal of property, plant and equipment	73	(23)
Impairment loss on other receivables #	158	2,683
Research and development costs#	5,081	4,482
Write-off of intangible assets#	3,000	1,392
Write-off of other receivable#	59	–
Write-off of construction in progress#	–	48
Write-off of property, plant and equipment#	645	132
Operating leases charges in respect of		
– Office premises in Hong Kong	795	789
– Leasehold land in the PRC	1,742	2,536
– Others	84	764
	2,621	4,089

Included in other operating expenses.

14. Employee Benefits Expenses

	2017 **RMB'000**	2016 RMB'000
Staff costs (including directors' emoluments and amount classified as research and development cost)		
– Salaries, bonus and allowance	**20,888**	40,808
– Retirement benefit scheme contributions	**1,744**	3,843
– Severance payment	**1,155**	811
	23,787	45,462
Less: amount capitalised in software development costs	**–**	(10,871)
	23,787	34,591

The five highest paid individuals in the Group during the year included three (2016: three) directors whose emoluments are reflected in the analysis presented in note 15 to the consolidated financial statements. The emoluments of the remaining two (2016: two) individuals are set out below:

	2017 **RMB'000**	2016 RMB'000
Salaries and allowances	**1,495**	1,058
Retirement benefit scheme contributions	**62**	30
Severance payment	**–**	127
	1,557	1,215

The emoluments fell within the following band:

	Number of individuals	
	2017	2016
Nil to HK$1,000,000 (equivalent to nil to RMB864,000 (2016: Nil to RMB859,000))	**1**	2
HK$1,000,001 to HK$1,500,000 (equivalent to RMB864,001 to RMB1,296,000 (2016: RMB859,000 to RMB1,288,000))	**1**	–

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out below as an inducement to join or upon joining the Group or as compensation for loss of office.

15. Benefits And Interests Of Directors

(a) Directors' emoluments

The remuneration of every director is set out below:

	For the year ended 31 December 2017			
	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of director				
Executive directors				
Mr Yang Xin Min	–	1,383	–	1,383
Mr Kwan Che Hang Jason	155	1,277	23	1,455
Mr Yang Zhen	–	622	16	638
	155	3,282	39	3,476
Independent Non-executive directors				
Dr Cheng Faat Ting Gary	95	–	–	95
Mr Poon Lai Yin Michael	86	–	–	86
Mr Yang Wei Qing	86	–	–	86
	267	–	–	267
Total for 2017	422	3,282	39	3,743

	For the year ended 31 December 2016			
	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of director				
Executive directors				
Mr Yang Xin Min	–	1,374	–	1,374
Mr Kwan Che Hang Jason	421	1,086	21	1,528
Mr Yang Zhen	–	618	17	635
	421	3,078	38	3,537
Independent Non-executive directors				
Dr Cheng Faat Ting Gary	94	–	–	94
Mr Poon Lai Yin Michael	86	–	–	86
Mr Yang Wei Qing	86	–	–	86
	266	–	–	266
Total for 2016	687	3,078	38	3,803

15. Benefits And Interests Of Directors (Continued)

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

16. Defined Contribution Retirement Plan

The Group operates a mandatory provident fund scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

The Group's total contributions to these schemes charged to the profit or loss during the year ended 31 December 2017 amounted to approximately RMB1,744,000 (2016: RMB3,843,000) representing contributions payable by the Group to the schemes at the appropriate rates set by the local government of the countries/regions the subsidiaries operate.

17. Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2017 (2016: nil).

18. Earnings/(Loss) Per Share

(a) Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately RMB15,738,000 (2016: RMB146,762,000 loss) and the weighted average number of ordinary shares of 4,762,033,424 (2016: 4,005,326,969) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately RMB15,738,000 and the weighted average number of ordinary shares of 4,765,035,165 arising from the effect of contingent shares payables.

The exercise of the Group's outstanding share options for the year ended 31 December 2016 would be anti-dilutive for loss per share.

19. Property, Plant And Equipment

	Buildings and leasehold improvement RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
At 1 January 2016	9,960	40,533	2,328	52,821
Additions	32	185	–	217
Write-off	(381)	(35)	–	(416)
Disposals	–	(112)	(528)	(640)
Disposal of a subsidiary (note 43(a))	–	(17)	–	(17)
Transfer from construction in progress (note 21)	–	9,737	–	9,737
Exchange differences	36	1	–	37
At 31 December 2016 and 1 January 2017	**9,647**	**50,292**	**1,800**	**61,739**
Additions	**421**	**64**	**583**	**1,068**
Write-off	**(1,310)**	**(41,204)**	**–**	**(42,514)**
Disposals	**–**	**(372)**	**–**	**(372)**
Acquisition of subsidiaries (note 43(d))	**–**	**166**	**–**	**166**
Disposal of subsidiaries (note 43(c))	**–**	**(286)**	**–**	**(286)**
Exchange differences	**(29)**	**(33)**	**–**	**(62)**
At 31 December 2017	**8,729**	**8,627**	**2,383**	**19,739**
Accumulated depreciation and impairment				
At 1 January 2016	1,828	36,667	377	38,872
Charge for the year	1,110	1,928	492	3,530
Write-off	(249)	(35)	–	(284)
Disposals	–	(77)	(330)	(407)
Disposal of a subsidiary (note 43(a))	–	(9)	–	(9)
Transfer from construction in progress (note 21)	–	5,482	–	5,482
Exchange differences	8	(6)	–	2
Impairment losses (note c)	–	3,825	–	3,825
At 31 December 2016 and 1 January 2017	**2,697**	**47,775**	**539**	**51,011**
Charge for the year	**842**	**1,036**	**463**	**2,341**
Write-back	**(1,020)**	**(40,849)**	**–**	**(41,869)**
Disposals	**–**	**(261)**	**–**	**(261)**
Disposal of subsidiaries (note 43(c))	**–**	**(248)**	**–**	**(248)**
Exchange differences	**(12)**	**(16)**	**–**	**(28)**
At 31 December 2017	**2,507**	**7,437**	**1,002**	**10,946**
Carrying amount				
At 31 December 2017	**6,222**	**1,190**	**1,381**	**8,793**
At 31 December 2016	6,950	2,517	1,261	10,728

19. Property, Plant And Equipment (Continued)

Notes:

(a) The Group's buildings are located in the PRC under medium term leases.

(b) At 31 December 2017, the carrying amount of the Group's property, plant and equipment pledged as security for the Group's bank loans of RMB10,500,000 (2016: RMB15,000,000) (note 36) amounted to approximately RMB5,646,000 (2016: RMB6,042,000).

(c) The non-current assets were attributable to the CGU of railway Wi-Fi operations and CGU of other Wi-Fi operations under IDM solutions segment. The recoverable amounts of the CGUs had been determined on the basis of their value in use calculation using discounted cash flow method. The key assumptions for the discounted cash flow method were those regarding the discount rates, growth rates and budgeted gross margins and turnover during the period. The Group estimated discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates were based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover were based on past practices and expectations on market development.

The Group conducted impairment testings on the carrying amounts of the non-current assets. Based on the valuation report prepared by Avista Valuation Advisory Limited ("**Avista**"), an independent firm of professional valuers, impairment losses of non-current assets charged to profit or loss were analysed as follows:

	IDM solutions segment For the year ended 31 December	
	2017 RMB'000	2016 RMB'000
Property, plant and equipment	–	3,825
Construction in progress (note 21)	–	2,704
Charged to profit or loss	–	6,529

The Group prepared cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% in 2016. This rate did not exceed the average long-term growth rate for the relevant markets. The rates used to discount the forecast cash flows from the Group's railway Wi-Fi operations and other Wi-Fi operations were 22.3% and 22.3% respectively.

Due to the unpredictability of income generated from the IDM solutions segment, the recoverable amounts of the CGUs were zero. Full impairment was made on the above non-current assets for the year ended 31 December 2016.

20. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
At 1 January	**54,000**	50,300
Fair value gain	**2,600**	3,700
At 31 December	**56,600**	54,000

The fair value of the Group's investment properties at 31 December 2017 and 2016 was valued on income capitalisation approach by taking into account the net rental income of the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease. The valuation was performed by Grant Sherman Appraisal Limited, an independent firm of chartered surveyors.

There was no change in the valuation approach for the years ended 31 December 2017 and 2016. The fair value of the Group's investment properties is within level 3 of the fair value hierarchy.

The Group's investment properties at its carrying amounts are analysed as follows:

	2017 RMB'000	2016 RMB'000
The PRC:		
Medium-term lease	**56,600**	54,000

At 31 December 2017, the investment properties were pledged as security for the Group's bank loans of RMB10,500,000 (2016: RMB15,000,000) (note 36).

21. Construction In Progress

	RMB'000
Cost	
At 1 January 2016	5,079
Additions	6,943
Transfer to property, plant and equipment (note 19)	(9,737)
Write-off	(48)
Disposals	(1,207)
At 31 December 2016 and 1 January 2017	**1,030**
Additions	**13**
Write-off	**(65)**
At 31 December 2017	**978**
Accumulated impairment	
At 1 January 2016	(5,015)
Disposals	1,207
Transfer to property, plant and equipment (note 19)	5,482
Impairment loss (note 19(c))	(2,704)
At 31 December 2016 and 1 January 2017	**(1,030)**
Write-back	**65**
At 31 December 2017	**(965)**
Carrying amount	
At 31 December 2017	**13**
At 31 December 2016	–

The Group's construction in progress comprises costs incurred on computer hardware, machinery and equipment pending installation. The assets belonged to the CGU of IDM solutions segments, details of the impairment are disclosed in note 19(c).

22. Prepaid Land Lease Payments

The Group's interests in prepaid land lease payments represent prepaid operating lease payments and their net book values are analysed as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**2,174**	2,230
Amortisation for the year	**(56)**	(56)
At 31 December	**2,118**	2,174
Current portion	**(56)**	(56)
Non-current portion	**2,062**	2,118

22. Prepaid Land Lease Payments (Continued)

As at 31 December 2017, the Group's leasehold properties are located in the PRC under medium-lease of fifty years.

As at 31 December 2017, the prepaid land lease payments were pledged as security for the Group's bank loans of RMB10,500,000 (2016: RMB15,000,000) (note 36).

23. Goodwill

		O2O solutions segment		
	E-Commerce solutions segment RMB'000 (note (a))	**Software development RMB'000** (note (b))	**Hardware installation RMB'000** (note (b))	**Total RMB'000**
Cost				
At 1 January 2016	–	56,093	2,103	58,196
Disposal of a subsidiary (note 43(a))	–	–	(857)	(857)
At 31 December 2016 and 1 January 2017	**–**	**56,093**	**1,246**	**57,339**
Acquisition of subsidiaries (note 43(d))	**59,883**	**–**	**–**	**59,883**
At 31 December 2017	**59,883**	**56,093**	**1,246**	**117,222**
Accumulated impairment losses				
At 1 January 2016	–	24,346	2,103	26,449
Disposal of a subsidiary (note 43(a))	–	–	(857)	(857)
Impairment loss	–	26,052	–	26,052
At 31 December 2016 and 1 January 2017	**–**	**50,398**	**1,246**	**51,644**
Impairment loss	**–**	**5,695**	**–**	**5,695**
At 31 December 2017	**–**	**56,093**	**1,246**	**57,339**
Carrying amount				
At 31 December 2017	**59,883**	**–**	**–**	**59,883**
At 31 December 2016	–	5,695	–	5,695

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

23. Goodwill (Continued)

Notes:

(a) The Group acquired 51% of the equity interest in LCE as disclosed in note 43(d) to the consolidated financial statements. The goodwill arising from the acquisition is allocated to CGU of E-Commerce solutions segment.

The recoverable amount of the CGU has been determined on the basis of its value in use calculations using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rate, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rate using pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on long-term average economic growth rate of the geographical area in which the business of the CGU operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3%. This rate does not exceed the average long-term growth rate for the relevant markets. The pre-tax rate used to discount the forecast cash flows is 25.2%. The recoverable amount of this CGU was higher than the carrying amount of CGU of which the assets belong, therefore, no impairment loss was recognised.

(b) The Group acquired 51% of the equity interest in VCL in 2013. The goodwill arising from the acquisition is allocated to CGU of software development and CGU of hardware installation respectively under the O2O solutions segment.

The recoverable amounts of the CGUs have been determined on the basis of their value in use calculations using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2016: 3%). This rate does not exceed the average long-term growth rate for the relevant markets. The rates used to discount the forecast cash flows from the Group's software development activities is 19.4% (2016: 19.1%).

Before impairment testing, the carrying amount of goodwill allocated to CGU of software development within the O2O solutions segment was RMB5,695,000 (2016: RMB31,747,000). The recoverable amount of this CGU was below the carrying amount of the CGU of which the assets belong. The recoverable amount of the CGU was approximately RMB1,438,000 (2016: RMB52,999,000) which was attributable to the unpredictability of income generated from the O2O solutions segment due to the keen market competition. Therefore, an impairment loss of RMB5,695,000 (2016: RMB26,052,000) and RMB23,760,000 (2016: nil) were recognised on goodwill and software development costs (note 24) respectively.

24. Intangible Assets

	Software development costs RMB'000 (note (a))	Customer relationship RMB'000 (note (b))	Computer software RMB'000 (note (c))	Total RMB'000
Cost				
At 1 January 2016	48,893	–	–	48,893
Additions	11,390	–	–	11,390
Write-off	(1,392)	–	–	(1,392)
Disposals	(3)	–	–	(3)
Exchange difference	9	–	–	9
At 31 December 2016 and 1 January 2017	**58,897**	**–**	**–**	**58,897**
Acquisition of subsidiaries (note 43(d))	**–**	**40,076**	**90**	**40,166**
Write-off	**(3,125)**	**–**	**–**	**(3,125)**
Disposal of subsidiaries (note 43(c))	**(20)**	**–**	**–**	**(20)**
At 31 December 2017	**55,752**	**40,076**	**90**	**95,918**
Accumulated amortisation and impairment losses				
At 1 January 2016	10,950	–	–	10,950
Amortisation for the year	9,027	–	–	9,027
Disposals	(1)	–	–	(1)
Exchange difference	1	–	–	1
At 31 December 2016 and 1 January 2017	**19,977**	**–**	**–**	**19,977**
Amortisation for the year	**12,144**	**–**	**–**	**12,144**
Write-off	**(125)**	**–**	**–**	**(125)**
Disposal of subsidiaries (note 43(c))	**(4)**	**–**	**–**	**(4)**
Impairment losses (note 23(b))	**23,760**	**–**	**–**	**23,760**
At 31 December 2017	**55,752**	**–**	**–**	**55,752**
Carrying amount				
At 31 December 2017	**–**	**40,076**	**90**	**40,166**
At 31 December 2016	38,920	–	–	38,920

Notes:

(a) Software development costs represent the self-developed software for sales and is amortised over the estimated useful life of 5 years. Software development costs belong to the CGU of software development under O2O solutions segment, details of the impairment testing on which are set out in note 23(b).

(b) Customer relationship represents the contracts signed with customer in respect of E-Commerce business and is amortised over the estimated useful life of 6 years.

(c) Computer software represents software acquired from third party and is amortised over the useful life of 5 years.

25. Investments In Subsidiaries

Particulars of the subsidiaries as at 31 December 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued capital/ registered capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities
Virtual City Limited ("**VCL**")	BVI	US$11,000	55.45%	–	Investment holding
Smartac Group Limited	HK	HK$14,450,001	–	100%	Investment holding
Smartac International Limited	HK	HK$1	–	100%	Investment holding
Smartac Asia Limited	HK	HK$1,000	–	100%	Provision of communication system installation and system integration business
Smartac Intelligent Systems Macau Limited	Macau	MOP100,000	–	100%	Inactive
Korea Accelerator Incorporated	Korea	KRW500,000,000	–	100%	Inactive
Cloutac Networks Limited^	HK	HK$1,160,000	–	51%	Investment holding
托雲網絡科技（上海）有限公司* ^ (Cloutac Networks Limited)#	The PRC	HK$1,000,000	–	100%	Not commence business yet
Smartac China Limited	HK	HK$15,612,500	–	100%	Investment holding
盈聯卡內基信息科技（蘇州）有限公司* (PCS Carnegie Technology (Suzhou) Limited)#	The PRC	US$3,310,000	–	100%	Investment holding
蘇州盈聯智能科技股份有限公司 (Smartac Solutions (Suzhou) Ltd.)#	The PRC	RMB34,800,000 (2016: RMB31,000,000)	–	97.27% (2016: 96.94%)	Software development
蘇州樂逛智能科技有限公司 (ShopperConnect (Suzhou) Limited)#	The PRC	RMB2,000,000	–	85%	Software development

25. Investments In Subsidiaries (Continued)

Particulars of the subsidiaries as at 31 December 2017 are as follows: (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued capital/ registered capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities
Tosun Limited	BVI	US$1	100%	–	Investment holding
Select Sky Limited	HK	HK$24,000,000	–	100%	Investment holding
Haihai Travel Cloud Limited	HK	HK$21,400,000	–	70%	Provision of mobile payment services
Great Sino Technology Development Limited ("**GSTD**")	HK	HK$237,000,000 (2016: HK$220,000,000)	–	100%	Investment holding
Cosmartec Limited	HK	HK$30,000,000	–	100%	Inactive
鴿子數碼科技（上海）有限公司* (Solomedia Digital (Shanghai) Limited)#	The PRC	HK$240,000,000	–	100%	Provision of advertising, IT and networking services
鴿子數碼科技（宜興）有限公司* (Solomedia (Yixing) Limited)#	The PRC	HK$50,000,000	–	100%	Provision of advertising, IT and networking services
宜興鴿子廣告傳媒有限公司 Yixing Solomedia Advertising Media Limited)#	The PRC	RMB1,000,000	–	100%	Provision of advertising, IT and networking services

25. Investments In Subsidiaries (Continued)

Particulars of the subsidiaries as at 31 December 2017 are as follows: (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued capital/ registered capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities
LCE Group Limited	BVI	US$10,000	51%	–	Investment holding
LCE HK Limited	HK	HK$10,000	–	100%	Investment holding and provision of market strategy
上海朔泓信息技術有限公司* (Shanghai Shouhong Information Technology Limited)#	The PRC	RMB5,000,000	–	100%	Trading of goods and provision of market strategy
上海建運信息技術有限公司 (Lucky Creation Enterprise (Shanghai) Limited)#	The PRC	RMB5,000,000	–	100%	Trading of goods and provision of marketing strategy, management of operation of online shop on e-commerce platform
建宜信息技術（上海）有限公司 (Jianyi Information Technology (Shanghai) Limited)#	The PRC	RMB1,467,259	–	100%	Provision of marketing strategy, management of operation of online shop on e-commerce platform

* These subsidiaries are foreign investment enterprises established pursuant to the law of the PRC.

\# Being English translated names.

^ These subsidiaries were newly incorporated during the year.

25. Investments In Subsidiaries (Continued)

Notes:

The following table shows information on the subsidiaries that have NCI material to the Group. The financial information represents amounts before inter-company eliminations.

	VCL	LCE
Date of incorporation	28 August 2013	27 March 2017
Place of incorporation	BVI	BVI
Principal place of business	HK and the PRC	The PRC
% of ownership interests/voting rights held by NCI	44.55%	49% *

	2017 RMB'000	2016 RMB'000	**2017 RMB'000**
At 31 December:			
Non-current assets	**67,500**	103,258	**40,332**
Current assets	**15,345**	22,195	**35,409**
Current liabilities	**(19,922)**	(23,553)	**(16,774)**
Non-current liabilities	**(13,102)**	(8,336)	**(10,019)**
Net assets	**49,821**	93,564	**48,948**
Accumulated NCI	**22,195**	41,683	**23,985**
Year ended 31 December:			
Loss and total comprehensive income	**(43,911)**	(20,934)	**–**
Loss and other comprehensive income allocated to NCI	**(20,598)**	(9,813)	**–**
Net cash generated from/(used in) operating activities	**208**	(5,160)	**–**
Net cash generated from/(used in) investing activities	**3,846**	(11,585)	**–**
Net cash used in financing activities	**(5,292)**	(2,373)	**–**
Exchange reserves	**278**	–	**–**
Net decrease in cash and cash equivalents	**(960)**	(19,118)	**–**

* The Group acquired 51% of equity interest on 28 December 2017 (note 43(d)).

26. Investment In An Associate

	2017 RMB'000	2016 RMB'000
Unlisted investment:		
Share of net assets	**3,047**	3,480
Goodwill	**7,224**	7,224
	10,271	10,704
Less: Accumulated impairment loss (note (b))	**(7,224)**	(7,224)
	3,047	3,480

Notes:

(a) Details of the Group's associate at 31 December 2017 are as follows:

Name	Place of establishment	Registered capital	Percentage of ownership interest	Principal activities
上海澤維信息技術有限公司 ("**Zewei**")	The PRC	RMB6,060,606	27.4%	Provision of information inquiries and sharing services

The following table shows information of the associate that is material to the Group. This associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the associate's management financial statements prepared under IFRS.

	2017 RMB'000	2016 RMB'000
At 31 December:		
Non-current assets	**780**	2,107
Current assets	**10,733**	11,089
Non-current liabilities	**(206)**	(206)
Current liabilities	**(187)**	(289)
Net assets	**11,120**	12,701
Group's share of net assets	**3,047**	3,480
Goodwill	**7,224**	7,224
Group's share of carrying amount of interests	**10,271**	10,704
Year ended 31 December:		
Revenue	**4,396**	5,244
Loss for the year and total comprehensive income	**(1,581)**	(1,914)

26. Investment In An Associate (Continued)

Notes: (Continued)

(b) The recoverable amount of the investment in Zewei, is determined from the value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rate and budgeted turnover. The Group estimates discount rate using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the investment in Zewei. The growth rate is based on long-term average economic growth rate of the geographical area in which Zewei operates. Budgeted turnover are based on expectations on market development of related operations.

The cash flow forecasts of Zewei are derived from the most recent financial budgets approved by the directors covering a five-year period using a growth rate of 3%. The pre-tax rate used to discount the forecast cash flow is 24.4% (2016: 23.2%). Since the recoverable amount of Zewei was approximate to its carrying amount, no impairment was recognised in 2017.

As at 31 December 2017, the bank and cash balances of the Group's associate in the PRC denominated in RMB amounted to RMB10,031,000 (2016: RMB10,754,000). Conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the foreign exchange control regulations imposed by the PRC government.

27. Long-Term Prepayments

Long term prepayment represented prepaid rights to operate the wireless networks at railway stations during the year ended 2016. The contracts were terminated during the year.

	2017 **RMB'000**	2016 RMB'000
At 1 January	**–**	–
Additions	**–**	20,811
Amortisation for the year	**–**	(20,811)
At 31 December	**–**	–

28. Available-For-Sale Financial Assets

	2017 **RMB'000**	2016 RMB'000
Non-current assets		
Unlisted equity securities	**4,000**	2,200
Less: impairment loss	**(2,200)**	(2,200)
	1,800	–

The unlisted equity securities represented investment of 1.81% and 2.44% equity interests in two private companies established in the PRC. The investments were carried at costs as they do not have quoted market prices in an active market and their fair values cannot be reliably measured. The directors performed impairment assessments based on the latest unaudited financial information of the two private companies as at 31 December 2017 and considered that no impairment had to be made for one of the investments while the other investment had been fully impaired as at 31 December 2016.

The above available-for-sale financial assets are denominated in RMB.

29. Other Investments

As at 31 December 2017, the Group's other investments represented financial products issued by one (2016: two) bank(s). These financial products were performance linked non-equity products on demand with variable return rates indexed to the performance of the underlying assets. The accrued and unpaid interest will be received upon redemption of the investment from the bank(s). The directors considered that the carrying value of the financial products approximates their fair value at the end of the reporting period.

30. Inventories

	2017 **RMB'000**	2016 RMB'000
Raw materials	**–**	38
Finished goods	**2,806**	1,739
	2,806	1,777
Less: Allowance	**(949)**	(438)
	1,857	1,339

Reconciliation of allowance for inventories:

	2017 **RMB'000**	2016 RMB'000
At 1 January	**438**	–
Write-off	**(438)**	–
Allowance for the year	**764**	438
Acquisition of subsidiaries (note 43(d))	**212**	–
Exchange differences	**(27)**	–
At 31 December	**949**	438

31. Trade And Other Receivables

	2017 RMB'000	2016 RMB'000
Trade receivables (note (a))	22,824	5,709
Less: Allowance	(913)	(770)
	21,911	4,939
Advance payments to suppliers	147	404
Deposits	4,924	7,310
Prepayments	1,553	1,305
Other receivables		
– VAT receivables	12,289	12,095
– Other receivables due from a service provider	5,000	–
– Other receivable (note (c))	2,003	2
– Others (note (b))	1,661	1,125
	49,488	27,180

Note:

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors and senior management.

The ageing analysis of the Group's trade receivables, based on invoice date, and net of allowance, is as follows:

	2017 RMB'000	2016 RMB'000
Up to 3 months	21,714	3,603
3 to 6 months	181	525
6 months to 1 year	16	682
Over 1 year	–	129
	21,911	4,939

31. Trade And Other Receivables (Continued)

Note: (Continued)

(a) Trade receivables (Continued)

Reconciliation of allowance for trade receivables:

	2017 RMB'000	2016 RMB'000
At 1 January	770	724
Acquisition of subsidiaries (note 43(d))	50	–
Allowance for the year	462	153
Write-off	(324)	(95)
Reversal of allowance	(45)	(12)
At 31 December	913	770

As of 31 December 2017, trade receivables of approximately RMB4,039,000 (2016: RMB1,972,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 RMB'000	2016 RMB'000
Up to 3 months	4,010	1,161
3 to 6 months	13	464
6 months to 1 year	16	218
Over 1 year	–	129
	4,039	1,972

The carrying amounts of the Group's net trade receivables are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
HK$	3,984	502
RMB	17,927	3,981
Others	–	456
	21,911	4,939

(b) An impairment loss of approximately RMB2,683,000 was made for the other receivable at 31 December 2016.

(c) The amount of RMB2,003,000 was received in January 2018 from an e-commerce partner for settlement of the obligations as disclosed in note 33(c).

32. Pledged Bank Deposits And Cash And Cash Equivalents

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents (note (a)(b))	**20,532**	99,953
Pledged bank deposits (note (c))	**19**	592
	20,551	100,545

Note:

(a) The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
US$	**71**	17,097
HK$	**8,034**	78,701
RMB	**12,418**	3,753
Others	**9**	402
	20,532	99,953

As at 31 December 2017, the Group's bank and cash balances held by the PRC subsidiaries denominated in RMB amounted to approximately RMB12,411,000 (2016: RMB3,753,000). Conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the foreign exchange control regulations imposed by the PRC government.

(b) As at 31 December 2017, bank balance of RMB775,000 was restricted for the purpose of settlement obligations as set out in note 33(c).

(c) The Group's pledged bank deposits represented deposits pledged to a bank for bank guarantee.

33. Trade And Other Payables

	2017 RMB'000	2016 RMB'000
Trade payables (note (a))	**2,938**	3,515
Receipts in advance from customers	**733**	747
Payables for construction costs and purchase of property, plant and equipment	**966**	2,658
Other payables		
– Settlement obligations (note (c))	**2,778**	–
– Other tax payables	**1,284**	424
– Rental deposits from tenants	**677**	575
– Others	**3,200**	25,270
Capital gain tax payable (note (b))	**5,581**	–
Provision for social security costs	**3,345**	–
Accrued expenses	**3,958**	3,263
	25,460	36,452

Note:

(a) The ageing analysis of the Group's trade payables, based on the date of receipt of goods or service consumed, is as follows:

	2017 RMB'000	2016 RMB'000
Up to 3 months	**661**	1,772
3 to 6 months	**43**	1,577
6 months to 1 year	**–**	–
Over 1 year	**2,234**	166
	2,938	3,515

(a) The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	**2,750**	3,386
HK$	**187**	11
US$	**1**	118
	2,938	3,515

(b) The Group made a provision of the capital gain tax of RMB5,581,000 relating to the acquisition of LCE Group as disclosed in note 43(d) according to Public Notice [2015] No. 7 ("**Public Notice No. 7**") and Guoshuihan [2017] No. 37 issued by the State Administration of Taxation (the "**SAT**").

(c) The settlement obligations are recognised upon receipt of fund from the end user customers of WeChat Pay service. The balance represents the Group's obligations to remit the same amount to designated contracted merchants. The settlement is normally done in the next two business day of the transaction date.

34. Provision For Onerous Contracts

The provision of RMB50,575,000 represented recognition of commitment for the railway Wi-Fi operation as of 31 December 2016. Due to unsatisfactory results from operations for years ended 2015 and 2016 arising from huge operating cost incurred and low revenue generated, the directors decided to suspend the railway Wi-Fi operations for two particular railway stations in order to reduce the losses, hence a provision for onerous contracts of RMB50,575,000 was recognised as at 31 December 2016.

On 28 June 2017, the Group entered into termination agreements mutually with the service providers regarding the withdrawal of the railway Wi-Fi operations for all railway stations due to unexpected delay and difficulties in installation work at certain major railway stations which adversely affected the expected income from the project. Pursuant to the terms of the agreements, all liabilities and commitments previously due and to be due were waived by both parties and considered settled and concluded on 28 June 2017. Hence, the Group reversed the above provision of RMB50,575,000 and also derecognised the payable amount of totalling RMB23,443,000 due to these service providers.

35. Due From/To Directors And Non-Controlling Interest

The amounts due from/to directors and non-controlling interest are unsecured, interest-free and repayable on demand.

36. Bank Loans And Banking Facilities

The analysis of the Group's bank loans is as follows:

	2017 **RMB'000**	2016 RMB'000
Secured bank loans repayable within one year	**10,500**	15,000

The carrying amounts of the Group's bank loans are denominated in RMB.

The Group's bank loans are arranged at the following interest rates:

	2017	2016
Bank loan of RMB2,500,000 (2016:RMB3,000,000)	**5.22%**	4.79%
Bank loan of RMB8,000,000 (2016:RMB12,000,000)	**5.66%**	5.66%

The Group's bank loans are repayable within one year. Bank loans of RMB2,500,000 are arranged at fixed interest rates and expose the Group to fair value interest rate risk while amount of RMB8,000,000 loans are arranged at floating interest rates, thus exposing the Group to cash flow interest rate risk.

As at 31 December 2017, the Group's bank loans of RMB10,500,000 (2016: RMB15,000,000) are secured by:

- Charge over the building (note 19(b));
- Charge over the prepaid land lease payments (note 22);
- Charge over the investment properties (note 20); and
- Personal guarantee of a director of the Company (note 47(b)).

37. Contingent Shares Payables

The contingent shares payables represented the fair value of the consideration shares to be issued to the vendor in the acquisition of subsidiaries as disclosed in note 43(d). The fair value of the consideration shares was approximately RMB26,488,000 (equivalent to HK$31,773,000) as at date of acquisition and 31 December 2017 calculated based on the closing price of the Company's shares at date of acquisition and the actual and forecasted profits of LCE Group.

The directors made an assessment on the e-commerce business of the subsidiaries acquired (note 43 (d)) and considered the vendor could achieve the Target Profits.

	2017 RMB'000
Acquisition of subsidiaries (note 43(d)) and at 31 December	**26,488**

Represented by:	RMB'000
Current portion	**5,941**
Non-current portion	**20,547**
	26,488

38. Deferred Tax

The following are the deferred tax liabilities recognised by the Group.

	Property, plant and equipment and other assets RMB'000	Intangible assets RMB'000	Investment properties RMB'000	Customer relationship RMB'000	Total RMB'000
At 1 January 2016	(364)	(1,824)	(6,486)	–	(8,674)
Credited/(charged) to profit or loss (note 12)	32	990	(555)	–	467
At 31 December 2016 and 1 January 2017	**(332)**	**(834)**	**(7,041)**	**–**	**(8,207)**
Increment in deferred taxes resulting from changes in tax rate (note 12)	**(308)**	**(556)**	**(4,693)**	**–**	**(5,557)**
Acquisition of subsidiaries (note 43(d))	**–**	**–**	**–**	**(10,019)**	**(10,019)**
Credited/(charged) to profit or loss (note 12)	**51**	**1,390**	**(649)**	**–**	**792**
At 31 December 2017	**(589)**	**–**	**(12,383)**	**(10,019)**	**(22,991)**

38. Deferred Tax (Continued)

At 31 December 2017, the Group has unused tax losses of approximately RMB163,906,000 (2016: RMB141,612,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of approximately RMB163,906,000 (2016: RMB141,612,000) due to the unpredictability of future profit streams.

The unused tax losses of approximately RMB150,967,000 (2016: RMB130,978,000) will expire as follows:

	2017	2016
	RMB'000	RMB'000
Year 2019	**24,448**	24,448
Year 2020	**74,488**	74,488
Year 2021	**28,921**	32,042
Year 2022	**23,110**	–
	150,967	130,978

Apart from the tax losses as disclosed above, the remaining tax losses may be carried forward indefinitely.

39. Share Capital

	The Company	
Authorised:	**Number of shares**	**Nominal value of shares HK$'000**
Ordinary shares of HK$0.05 each		
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	**8,000,000,000**	**400,000**

Issued and fully paid:	**Number of shares**	**Nominal value of shares HK$'000**	**Nominal value of shares RMB'000**
At 1 January 2016	3,968,361,424	198,417	178,589
Issue of shares upon placement (note (a))	793,672,000	39,684	35,478
At 31 December 2016, 1 January 2017 and 31 December 2017	**4,762,033,424**	**238,101**	**214,067**

Notes:

(a) On 30 November 2016, the Company and Orient Securities (Hong Kong) Limited entered into a placing agreement in respect of the placement of 793,672,000 ordinary shares of HK$0.05 each at a price of HK$0.1033 per share. The placement was completed on 15 December 2016 and the premium on the issue of shares, amounting to approximately RMB36,715,000 (equivalent to HK$41,067,000), net of share issue expenses of approximately RMB1,105,000 (equivalent to HK$1,236,000), was credited to the Company's share premium account and approximately RMB35,478,000 (equivalent to HK$39,684,000) was credited to share capital.

39. Share Capital (Continued)

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the years ended 31 December 2016 and 2017.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, retained profits and other reserves).

	2017 **RMB'000**	2016 RMB'000
Debt (a)	**41,543**	102,275
Less: Cash and cash equivalents	**(20,532)**	(99,953)
Net debt	**21,011**	2,322
Equity (b)	**102,771**	92,293
Debt-to-adjusted capital ratio	**20.44%**	2.52%

(a) Debt is defined as trade and other payables, provision for onerous contracts, bank loans, due to directors and related parties as detailed in notes 33 and 34, 36, 35 and 47(c) to the consolidated financial statements.

(b) Equity includes all capital and reserves attributable to the owners of the Company.

The increase in debt-to-adjusted capital ratio during 2017 resulted primarily from decrease of cash and cash equivalents.

It is the Group's strategy to keep the debt-to-adjusted capital ratio as low as feasible.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

The Group checks the substantial share interests showing the non-public float through the Stock Exchange's website and it demonstrates continuing compliance with the 25% limit throughout the year. At 31 December 2017, 84.77% (2016: 82.67%) of shares were in public hands.

40. Statement Of Financial Position And Reserve Movement Of The Company

(a) Statement of financial position of the Company

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	**–**	383
Investments in subsidiaries	**104,970**	22,345
	104,970	22,728
Current assets		
Prepayment and other receivables	**488**	419
Due from subsidiaries	**–**	–
Bank and cash balances	**3,373**	89,768
	3,861	90,187
Current liabilities		
Accruals and other payables	**8,842**	1,630
Due to directors	**2**	203
Contingent shares payables	**5,941**	–
	14,785	1,833
Net current (liabilities)/assets	**(10,924)**	88,354
Non-current liabilities		
Contingent shares payables	**20,547**	–
	20,547	–
NET ASSETS	**73,499**	111,082
Capital and reserves		
Share capital	**214,067**	214,067
Reserves	**(140,568)**	(102,985)
TOTAL EQUITY	**73,499**	111,082

Approved by the Board of Directors on 27 March 2018 and are signed on its behalf by:

Yang Zhen	**Kwan Che Hang Jason**
Director	*Director*

40. Statement Of Financial Position And Reserve Movement Of The Company (Continued)

(b) Reserve movement of the Company

	Share premium account RMB'000 (note 41(b)(i))	Share-based payment reserve RMB'000 (note 41(b)(iii))	Foreign currency translation reserve RMB'000 (note 41(b)(iv))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	1,038,509	1,336	(89,925)	(989,733)	(39,813)
Total comprehensive income for the year	–	–	434	(100,321)	(99,887)
Issue of shares upon placement (note 39(a))	36,715	–	–	–	36,715
Lapse of share options granted in prior years	–	(1,336)	–	1,336	–
Changes in equity for the year	36,715	(1,336)	434	(98,985)	(63,172)
At 31 December 2016 and at 1 January 2017	**1,075,224**	**–**	**(89,491)**	**(1,088,718)**	**(102,985)**
Total comprehensive income for the year	**–**	**–**	**(5,572)**	**(32,011)**	**(37,583)**
Changes in equity for the year	**–**	**–**	**(5,572)**	**(32,011)**	**(37,583)**
At 31 December 2017	**1,075,224**	**–**	**(95,063)**	**(1,120,729)**	**(140,568)**

41. Reserves

(a) The Group

The amounts of the Group's reserves and movements therein are presented in the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium account

Share premium represents premium arising from the issue of shares at a price in excess of their par value. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

41. Reserves (Continued)

(b) Nature and purpose of reserves (Continued)

(iii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(v) to the consolidated financial statements.

(iv) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(d) to the consolidated financial statements.

(v) Capital reserve

The capital reserve represents the premium arising from further acquisition of the equity interest up to 100% in GSTD during the year ended 31 December 2015.

(vi) Other reserve

Other reserve represents the non-distributable reserves regarding the disposal of discontinued operations during the year ended 31 December 2015.

42. Major Non-Cash Transactions

During the year ended 31 December 2016, an amount of approximately RMB20,811,000 in relation to payment for railway Wi-Fi operations was accrued and included in other payables as at 31 December 2016.

43. Note To Cash Flow Statement

(a) Disposal of a subsidiary

On 18 November 2016, the Group entered into a sale agreement with directors of Advanced Voice Technologies Asia Limited ("**AVTA**") to dispose 52% entire equity interests in AVTA. AVTA was principally engaged in trading of voice mail telephone system and provision of maintenance services.

43. Note To Cash Flow Statement (Continued)

(a) Disposal of a subsidiary (Continued)

Net assets at the date of disposal were as follows:

	RMB'000
Property, plant and equipment (note 19)	8
Trade and other receivables	56
Cash and cash equivalents	826
Due to fellow subsidiaries	(3)
NCI	(284)
Trade and other payables	(294)
Net assets disposed of	309
Release of foreign currency translation reserve	(51)
Gain on disposal of a subsidiary	46
Total consideration	304
Consideration satisfied by	
Cash	304
Net cash outflow arising on disposal:	
Cash consideration received	304
Cash and cash equivalents disposed of	(826)
	(522)

(b) Disposal of interest in a subsidiary without loss of control

On 18 May 2016, the Group disposed of 30% interests in a wholly-owned subsidiary at a cash consideration of HK$1,000. The effect of the disposal on the equity attributable to the owners of the Company is as follows:

	RMB'000
Carrying amount of the interests disposed	2,036
Consideration received from non-controlling interests	1
Gain on disposal recognised directly in equity	2,037

(c) Disposal of subsidiaries

On 5 January 2017, the Group through its non-wholly owned subsidiary entered into a conditional sale and purchase agreement with a director of a non-wholly owned subsidiary, Evolve Consulting Limited ("**Evolve**"), to dispose of the Group's entire 51% equity interests in Evolve and its subsidiary, which engaged in the provision of IT related services, at a cash consideration of HK$3,950,000 (equivalent to approximately RMB3,413,000). The disposal was completed on 27 January 2017.

43. Note To Cash Flow Statement (Continued)

(c) Disposal of subsidiaries (Continued)

On 30 June 2017, the Group through its non-wholly owned subsidiary entered into a conditional sale and purchase agreement with a related company, 蘇州璐思人工智能有限公司, which is controlled by a senior management personnel of the Group, to dispose of the Group's entire 100% equity interests in 蘇州小璐機器人有限公司 ("Lucy Robotics (Suzhou) Limited"), which engaged in robot development, at a cash consideration of RMB500,000. The disposal was completed on 14 July 2017.

Aggregated net assets at the dates of disposals were as follows:

	Total RMB'000
Property, plant and equipment (note 19)	38
Intangible assets (note 24)	16
Inventories	71
Trade and other receivables	1,089
Cash and cash equivalents	501
Due to fellow subsidiaries	4
Non-controlling interests	(182)
Trade and other payables	(1,545)
Net assets disposed of	(8)
Release of foreign currency translation reserve	(38)
Gain on disposal of subsidiaries	3,959
Total consideration	3,913
Consideration satisfied by	
Cash	3,913
Net cash outflow arising on disposal:	
Cash consideration received	3,913
Cash and cash equivalents disposed of	(501)
	3,412

(d) Acquisition of subsidiaries

On 10 October 2017, the Group entered into a conditional sale and purchase agreement to acquire 51% of the equity interests of LCE Group at consideration of HK$168,300,000 (equivalent to RMB140,308,000) and to be settled by cash and contingent consideration as follow:

i) HK$25,000,000 cash paid on 10 June 2017;

ii) HK$45,000,000 cash paid at completion date (i.e. 28 December 2017); and

iii) HK$98,300,000 to be satisfied by allotment of consideration shares to be issued to the vendor, subject to the fulfilment of the guaranteed profits (the "**Target Profits**") for the year ending 31 December 2017, 2018 and 2019 and adjustment (if any) as set out below.

43. Note To Cash Flow Statement (Continued)

(d) Acquisition of subsidiaries (Continued)

	Year 2017	Year 2018	Year 2019
Target Profits	RMB15 million	RMB28 million	RMB37 million
No. of shares to be issued	61,437,500	114,683,333	151,545,833
Consideration shares in value (App.)	RMB15,998,000 (equivalent to HK$18,431,250)	RMB29,864,000 (equivalent to HK$34,405,000)	RMB39,463,000 (equivalent to HK$45,463,750)

Pursuant to the Agreement, no adjustment will be made to the consideration shares if audited consolidated net profits of LCE Group (the "**Actual Profits**") for each of the years ending 31 December 2017, 2018 and 2019 is not less than the Target Profits of respective years disclosed above.

– In the event that the Actual Profits for each of the years ending 31 December 2017, 2018 and 2019 is less than 100% but more than 50% of the Target Profit, the number and value of consideration shares to be issued for respective years will be adjusted according to the agreed terms and calculation.

– In the event that the Actual Profits for each of the years ending 31 December 2017, 2018 and 2019 is less 50% of the Target Profit, the value of consideration share to be issued for respective years will become nil.

LCE Group was engaged in provision of marketing strategy, management of operation of online shop and trading of goods on e-commerce platforms during the year. The Group aimed to diversify and strengthen its revenue sources and accelerate its growth and developments in the near future through acquisition of LCE Group. The above acquisition was completed on 28 December 2017.

The fair value of the identifiable assets and liabilities of LCE Group acquired as at the date of acquisition are as follows:

Net assets acquired:	RMB'000
Property, plant and equipment (note 19)	166
Intangible assets (note 24)	40,166
Inventories	1,275
Trade and other receivables	24,763
Cash and cash equivalents	9,371
Trade and other payables	(7,416)
Current tax liabilities	(4,493)
Due to a related party	(4,865)
Deferred tax liabilities (note 38)	(10,019)
	48,948
Non-controlling interests	(23,985)
Goodwill	59,883
	84,846

43. Note To Cash Flow Statement (Continued)

(d) Acquisition of subsidiaries (Continued)

Satisfied by:

Cash	58,358
Fair value of consideration shares (note 37)	26,488
	84,846
Net cash outflow arising on acquisition:	
Cash consideration paid	58,358
Cash and cash equivalents acquired	(9,371)
	48,987

The goodwill arising on the acquisition of LCE Group is attributable to the anticipated profitability of the distribution of the Group's products in the e-commerce markets and the anticipated future operating synergies from the combination.

No revenue and profit were contributed by LCE Group to the Group's revenue for the period between the date of acquisition and the end of the reporting period as the acquisition was completed near the end of reporting period.

If the acquisition had been completed on 1 January 2017, total Group's revenue for the year would have been RMB54,755,000, and profit for the year would have been RMB10,345,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is intended to be a projection of future results.

The fair value of the trade and other receivables acquired is RMB24,763,000. The gross contractual amount is RMB24,813,000, of which RMB50,000 is expected to be uncollectible.

Acquisition-related cost of RMB2,506,000 was included in other operating expenses.

(e) 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.

	1 January 2017 RMB'000	Cash flows RMB'000	Interest expenses RMB'000	31 December 2017 RMB'000
Borrowings (note 36)	15,000	(5,292)	792	10,500
Due to related parties	–	500	–	500
	15,000	(4,792)	792	11,000

44. Capital Commitments

The Group's capital commitments at the end of the reporting period are as follows:

	2017 **RMB'000**	2016 RMB'000
Property, plant and equipment		
Contracted but not provided for	**–**	598

45. Lease Commitments

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year	**1,745**	3,755
In the second to fifth year inclusive	**1,054**	849
	2,799	4,604

The Group leases offices and land under operating lease with fixed rental. The lease runs for an initial period of 1 to 3 years, with an option to renew when all terms are renegotiated.

45. Lease Commitments (Continued)

At 31 December 2017, the total future minimum lease expected to be received under non-cancellable operating leases are as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**1,937**	1,991
After 1 year but within 5 years	**685**	800
	2,622	2,791

The Group leases out the investment properties under operating leases. The leases typically run for an initial period of one to four years, with an option to renew the lease after the date at which time all terms are negotiated. Lease payments are usually adjusted every year to reflect market rentals. None of the leases includes contingent rentals.

46. Other Commitments

At 31 December 2017, the Group had certain commitments in respect of the outstanding capital contribution of the following associated company and subsidiaries:

	2017 RMB'000	2016 RMB'000
Unquoted equity investment	**–**	1,800
ShopperConnect (Suzhou) Limited	**–**	1,600
Solomedia Digital (Shanghai) Limited	**2,501**	13,494
Solomedia (Yixing) Limited	**21,676**	23,390
PCS Carnegie Technology (Suzhou) Limited	**–**	817
Haihai Travel Cloud Limited	**4,152**	4,480
Cosmartec Limited	**25,010**	26,988
托雲網絡科技（上海）有限公司	**834**	–
Cloutac Networks Limited	**408**	–

47. Related Parties Transactions

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had entered into the following transactions with its related parties during the year.

(a) Transactions with related parties

Name of related parties	Relationship	Nature of transaction	2017 RMB'000	2016 RMB'000
Zewei	An associate	Sale of an intangible asset	–	950
		Service income received	–	113
		Service cost charged	1,836	2,324
蘇州小璐機器人有限公司	Controlled by a senior management personnel of the Group	Service cost charged	69	–
Singutac Limited	Controlled by a senior management personnel of the Group	Service income received	198	–
怡峰商務諮詢（上海）有限公司	Controlled by a director of the Company and a senior management personnel of the Group	Service cost charged	288	–
		Service income received	895	–

(b) Details of guarantees provided by related parties for banking facilities granted to the Group are as set out in note 36 to the consolidated financial statements.

47. Related Parties Transactions (Continued)

(c) Amounts due from/(to) related parties

Name of related parties	Relationship	Terms	2017 RMB'000	2016 RMB'000
Lucky Creation Enterprise Limited	Non-controlling interest of the Group	Unsecured, interest-free and repayable on demand	**(4,865)**	–
Singutac Group Holdings Limited	Controlled by a senior management personnel of the Group	Unsecured, interest-free and repayable on demand	**82**	–
Singutac Limited	Controlled by a senior management personnel of the Group	Unsecured, interest-free and repayable on demand	**162**	–
蘇州璐思人工智能有限公司	Controlled by a senior management personnel of the Group	Unsecured, interest-free and repayable on demand	**500**	–
Kwan Che Ho, Jacky	Brother of a director of the Company, Mr. Kwan Che Hang Jason	Unsecured, interest-bearing of 10% per annum and repayable on or before 15 June 2018	**(500)**	–
怡峰商務諮詢（上海）有限公司	Controlled by a director of the Company and a senior management personnel of the Group.	Unsecured, interest-free and repayable on demand	**(122)**	–

(d) The compensation to the Group's key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees, is disclosed in note 15 to the consolidated financial statements.

The remuneration of directors and other members of key management during the year was as follows:

	2017 RMB'000	2016 RMB'000
Short-term benefits	**5,964**	5,908

48. Contingent Liabilities

The Company acquired 51% equity interests in LCE Group from the vendor (a BVI company) during the year as disclosed in note 43(d). This transaction is regarded as indirect transfer of the PRC subsidiaries of LCE Group by non tax residents and fall within the scope as described in the Public Notice 7 issued by the SAT.

The capital gain derived from such indirect transfer will be subject to EIT and the withholding agent should withhold the EIT amount for settlement with the tax authorities pursuant to the Public Notice [2017] No. 37 issued by the SAT. The PRC tax authorities would demand the withholding agent for the payment of EIT and impose penalty of 50% to 3 times of the unpaid EIT. The penalty may be relieved if the share transfer transaction has been voluntarily reported to the PRC tax authorities.

As at 31 December 2017, the Group has paid HK$70,000,000 (equivalent to RMB58,358,000) to the vendor. Neither the Group nor the vendor has reported the share transfer transaction or has settled the EIT to the PRC tax authorities. The directors, after consulting the Group's PRC legal counsel, are of opinion that a provision of RMB5,581,000 calculated based on the cash consideration paid to the vendor as of 31 December 2017 should be made, and considered that the risk of having a penalty imposed by the PRC tax authorities is reasonably low.

Apart from above, the Group has no other material contingent liabilities as at 31 December 2017.