China e-Wallet Payment Group Limited
中國錢包支付集團有限公司*

(a company incorporated in Bermuda with limited liability)

(Stock Code: 802)

2017 ANNUAL REPORT

** For purpose of identification only*

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Five-Year Financial Summary

	For the year ended 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Results					
Turnover	**55,009**	34,386	34,044	31,847	466,280
(Loss)/profit for the year	**(394,695)**	(183,652)	152,172	(130,246)	(942,124)
(Loss)/profit attributable to:					
Owners of the Company	**(392,785)**	(176,783)	156,498	(115,556)	(935,625)
Non-controlling interests	**(1,910)**	(6,869)	(4,326)	(14,690)	(6,499)
	(394,695)	(183,652)	152,172	(130,246)	(942,124)
Basic (loss)/earnings per share (Note)	**HK$(0.16)**	HK$(0.11)	HK$0.22	HK$(0.42)	HK$(1.33)
Dividends per share	**–**	–	–	–	–

	As at 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Assets and liabilities					
Total assets	**657,769**	1,123,402	773,869	346,570	391,710
Total liabilities	**(51,234)**	(225,425)	(81,636)	(108,081)	(113,643)
	606,535	897,977	692,233	238,489	278,067
Equity attributable to owners of the Company	**587,683**	877,215	664,602	206,532	245,922
Non-controlling interests	**18,852**	20,726	27,631	31,957	32,145
	606,535	897,977	692,233	238,489	278,067

Note: The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to owners of the Company and on the weighted average number of shares in issue during the relevant years.

Cautionary Statement Regarding Forward-Looking Statements

This annual report 2017 contains forward-looking statements that state the Company's beliefs, expectations, intentions or predications for the future. The forward-looking statements reflect the current view of the board of Directors (the "Board") of China e-Wallet Payment Group Limited (the "Company") with respect to future events and are, by their nature, subject to risks, uncertainties and assumptions, including the risk factors as disclosed in this report.

In some cases, words such as "believe", "will", "would", "could", "may", "should", "expect", "intend", "consider", "anticipate", "estimate", "project", "plan", "potential" or similar expressions are used to identify forward-looking statements. The Board can give no assurances that those expectations and intentions will prove to have been correct, and you are cautioned not to place undue reliance on such statements. All forward-looking events or circumstances contained in this report might not occur in the manner the Board expects. Accordingly, you should not place undue reliance on such forward-looking statements. All forward-looking statements contained in this report are qualified by reference to these cautionary statements.

Director's Statement

Dear shareholders,

On behalf of the Board of Directors, I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017, which consists of reporting on the activities, results and strategies of the Company.

BUSINESS ENVIRONMENT

The year 2018 had proven to be challenging throughout the global economy market. In particular, Asian market has maintained volatile through out these periods. The expansionary fiscal orientation supported the growth in these regions. Central banks may have been cautious in their conduct of monetary policy for good reasons, but liquidity was kept ample through calibrated downward adjustments in key rates.

Moving forward, we expect the pace of output growth in both Global and Asia market remain largely unchanged, with most governments expressing their intention to strengthen their pump-priming efforts in the near term to counter sluggish external demand.

Facing the above challenges, the Company continues to realign its business strategies and increased its efforts to innovate its core products and services to better face the increasing needs of its market.

THANK YOU

I would like to take this opportunity to express my sincere gratitude to our shareholders, business partners and customers for their continued support, as well as to the Group's management team and staff for their tireless dedication and efforts in developing the long term prospects of the Group.

Li Jinglong
Executive Director

Hong Kong, 23 March 2018

BUSINESS REVIEW

In the financial year of 2017, the Group recorded a turnover of approximately HK$55.0 million, representing an increase of 59.9% compared to the same period in 2016. The increase in turnover was mainly attributable to the application development income generated by continuous efforts in diversification into settlement application market. The Company already procured thousands of merchants to participate in its settlement application services. In order to capture its market share and procure sizable merchants in a short period of time, up to 31 December 2017, the Company paid earnest deposits of approximately HK$457.8 million to these merchants. The earnest deposits would be subsequently utilized as incentives by giving E-coupons or discounts to the customers of the merchants. In return, the Company would share the transaction fee from the settlement application services and receive rebate income from these merchants.

The Group recorded a gross profit of approximately HK$8.3 million for the year ended 31 December 2017 as against a gross loss of approximately HK$1.2 million for the year ended 31 December 2016 due to increase in turnover in relation to the application development. The Group reported a net loss of approximately HK$394.7 million for the year ended 31 December 2017. The increase of net loss was mainly attributable to net effect of (i) the significant increase in realised loss on disposal of the financial assets at fair value through profit or loss, which mainly arising from disposal of investments in China Jicheng Holdings Limited (stock code: 1027) ("CJH"); (ii) recognition of share-based payment amounting to approximately HK$81.7 million arising from issue of share options during the year; and (iii) the change in fair value of derivative financial assets, which is the early redemption option of the Company embedded in convertible notes.

Performance of business segments

During the year, the Group's business is divided generally into two categories: "**Internet and Mobile's Application and Related Accessories**"and "**Trading of Security and Biometric Products**".

The Group believe that the "**Internet and Mobile's Application and Related Accessories**" segment as a key growth area, is in-line with the rapid growth of the mobile and gaming industry and in particular in application development for merchants, online gaming and utilities applications for IOS and Androids and mass advertising.

The Group is an international developer and solutions provider in the biometric, RFID and security industries and delivers high-performing, convenient security systems for enterprises and consumers. The Group's Trading of Security and Biometric Products segment consists of biometrics and RFID products for consumer applications.

	Year ended 31 December				HK$ y-o-y
	2017		2016		growth
Business Segment	HK$ m	%	HK$ m	%	%
Internet and Mobile's Application and Related Accessories	**54.9**	**99.8**	34.3	99.7	60.1
Trading of Security and Biometric Products	**0.1**	**0.2**	0.1	0.3	0
Total Revenue	**55.0**	**100.0**	34.4	100.0	

The key contributor to the Group's turnover as at 31 December 2017 was the Internet and Mobile's Application and Related Accessories segment which contributed 99.8% of the total turnover.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2017, the Group reported a total revenue of approximately HK$55.0 million representing an increase of 59.9% compared to approximately HK$34.4 million in the same period in 2016. The increase is mainly attributable to application development income generated by continuous efforts in diversification into settlement application market.

Cost of sales

Cost of sales increased from approximately HK$35.6 million in 2016 to approximately HK$46.7 million in the same period in 2017. In terms of percentage of sales, the cost of sales decreased from 103.5% in 2016 to 84.9% in 2017. The decrease was in line with the increase in application development income.

Gross profit/loss

Gross profit in 2017 was approximately HK$8.3 million, as against a gross loss of approximately HK$1.2 million in the same period of 2016 because the Group is still under the development stage of application for merchants in 2016.

Other revenue and gains

Other revenue and gains decreased from approximately HK$0.6 million during the year of 2016 to approximately HK$0.2 million in the same period of 2017.

Administrative expenses

Administrative expenses increased by 344.4% from approximately HK$32.1 million in 2016 to approximately HK$142.6 million in the same period in 2017. The increase was mainly due to (i) the share-based payment of approximately HK$81.7 million arising from issue of share options during the year ended 31 December 2017; and (ii) the marketing expense for settlement application market amounting to approximately HK$15.4 million.

Other operating expenses

Other operating expenses increased 276.9% from approximately HK$51.8 million for the year ended 31 December 2016 to approximately HK$195.4 million for the year ended 31 December 2017. The increase was attributable to (i) increase of realised loss on disposal of financial assets at fair value through profit or loss, which mainly comprise of disposal of investments in CJH; and (ii) increase of impairment loss on intangible assets.

Finance costs

Finance costs increased by 86.8% from approximately HK$2.2 million in 2016 to approximately HK$4.1 million in the same period in 2017.

Loss before taxation

Loss before taxation for the year ended 31 December 2017 was approximately HK$424.7 million, compared to a loss before taxation of approximately HK$150.7 million in the same period in 2016.

Income tax recoverable/expenses

Income tax expenses changed from approximately HK$32.9 million expenses in 2016 to approximately HK$30.1 million recoverable in same period in 2017.

Loss for the year

The Group's loss for the year was approximately HK$394.7 million compared to loss of approximately HK$183.7 million in the same period in 2016. The increase of net loss was mainly attributable to net effect of (i) the significant increase in realised loss on disposal of the financial assets at fair value through profit or loss, which mainly arising from disposal of investments in CJH; (ii) recognition of share-based payment accounting to approximately HK$81.7 million arising from issue of share options during the year; and (iii) the change in fair value of derivative financial assets, which is the early redemption option of the Company embedded in convertible notes.

Loss attributable to owners of the Company

Loss attributable to owners of the Company changed from a loss of approximately HK$176.8 million in 2016 to a loss of approximately HK$392.8 million in the same period of 2017.

Loss attributable to the non-controlling interests

The loss attributable to the non-controlling interests of approximately HK$1.9 million for the year ended 31 December 2017 (2016: approximately HK$6.9 million).

REVIEW OF THE GROUP'S FINANCIAL POSITION AS AT 31 DECEMBER 2017

Liquidity and capital resources

The Group has internal budgeting systems in place to ensure that if and when cash is committed to fund major expenditures there is sufficient cash flow to maintain the Group's daily operations and meet all of its contractual obligations.

The Group funds its operations with sales revenue from its operating activities. The Group also has cash inflows from interest income and collections. Key drivers in the Group's sources of cash are primarily the Group's sales, and their inflow depends on the Group's ability to collect payments. There have been no material changes in the Group's underlying drivers during the period under review.

The Group incurred capital expenditure of approximately HK$1.5 million during the year of 2017 (2016: HK$Nil).

Save as disclosed above, there were no other charges on assets as at 31 December 2017 (2016: HK$ Nil).

The Group had cash and cash equivalents of approximately HK$37.2 million as at 31 December 2017 compared to approximately HK$442.5 million as at 31 December 2016.

Working Capital

Trade receivables have increased by 26.9% from approximately HK$36.9 million in 2016 to approximately HK$46.9 million in the same period in 2017. This is in line with the continued consolidation and realignment of the Group business.

CAPITAL COMMITMENTS

The Group had no capital commitments as at 31 December 2017 (2016: HK$Nil).

GEARING RATIO

As at 31 December 2017, the Group's gearing ratio was approximately 2.4%, as compared to 10.7% as at 31 December 2016. The gearing ratio was calculated as the Group's total debt divided by its total capital, the total debt of the Group was approximately HK$14.2 million as at 31 December 2017. Total capital is calculated as total shareholder equity of HK$587.7 million plus debt.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no contingent liabilities (2016: HK$Nil). The Company has not been acted as a guarantor of its subsidiaries to secure any interest-bearing borrowings.

FOREIGN EXCHANGE RISK MANAGEMENT

Certain of the Group's bank balances are denominated in Pounds, Ringgit, United States Dollars, United Arab Emirates Dirham and Renminbi, each of which is a currency other than the functional currency of the relevant group entities, which exposes it to foreign currency risk. The Group has not used any financial instruments to hedge against this currency risk. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

HUMAN RESOURCES

As at 31 December 2017, in addition to the Directors, there were approximately 46 employees (31 December 2016: 40) of the Group stationed in the Group's offices in Hong Kong, Shanghai, Shenzhen, Beijing and Kuala Lumpur. Total staff costs for the year ended 31 December 2017 were approximately HK$85.9 million (which included share-based payment of approximately HK$81.7 million), compared with approximately HK$6.9 million in 2016. The saving was attributable to the Group's continuous efforts to reduce its overheads and re-allocate the project resources by increasing collaboration with third party partners, hence reducing the dependency on internal manpower needs.

The Group offers training and development courses for its employees to enhance the staff's working capabilities. Remuneration packages are linked to individual performance, the Group's business performance, and taking into consideration of the industry practices and market conditions, reviewed on an annual basis. Directors' remuneration is determined with reference to his/her duties and responsibilities with the Company, the Company's standards for emoluments and market conditions. Share options are also granted to eligible employees based on individual's performance as well as the Group's performance.

MANAGEMENT OUTLOOK

The Group had continued the efforts to consolidate and realign its businesses to enable the Group to achieve improvements in its financial position. The Group will continue to work towards, attaining a stable platform for sustainability and basis for continuous growth.

CENSURED BY THE LISTING COMMITTEE OF THE STOCK EXCHANGE

Upon conclusion of an investigation into the conduct of the Company and the relevant directors in relation to their obligations under the Listing Rules and the Declaration and Undertaking with regard to Directors given to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in the form set out in Appendix 5B to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), on 22 January 2018, the Listing Committee of the Stock Exchange ("Listing Committee") censured the Company and its directors (i.e. Mr. Li Jinglong, Mr. Zhang Ligong, Mr. Wang Zhongling and Mr. Kwan King Wah) and its former directors (i.e. Mr. Liu Wen and Mr. Tse Chin Pang) for breaching the relevant Listing Rules. For details, please refer to the regulatory announcement and news published by the Stock Exchange on 22 January 2018 ("Regulatory Announcement").

As stated in the Regulatory Announcement, the Listing Committee directed, among other things, that Mr. Li Jinglong, Mr. Zhang Ligong, Mr. Wang Zhongling, Mr. Kwan King Wah, Mr. Liu Wen and Mr. Tsz Chin Pang, should attend 24 hours of training on Listing Rule compliance and director's duties, including 4 hours of training on corporate governance and internal controls (the "Training"), to be provided by institutions such as the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Directors or other course providers approved by the Listing Department of the Stock Exchange (the "Listing Department"). Mr. Li Jinglong, Mr. Zhang Ligong, Mr. Wang Zhongling, Mr. Kwan King Wah, Mr. Liu Wen and Mr. Tsz Chin Pang then completed the Training and provided the Listing Department with the training provider's written certification of full compliance.

CORPORATE GOVERNANCE CODE

In connection with the listing of the Company on the Stock Exchange in February 2009, the Company adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules as its additional code on corporate governance practices on 2 February 2009. The Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2017.

BOARD COMPOSITION

As at 31 December 2017, there were six Board members consisting of three executive Directors and three independent non-executive Directors:

Executive Directors:
Li Jinglong
Zhang Ligong
Wang Zhongling *(Chief Executive Officer)*

Independent Non-executive Directors:
Cheng Ruixiong (appointed on 4 September 2017)
Kwan King Wah
Lo Suet Lai

Board Diversity Policy

The Nomination Committee adopted the board diversity policy on 29 August 2013.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

RESPONSIBILITIES OF THE BOARD

The Board is responsible for the overall direction and strategy of the Group, its performance, management and major financial matters. The Board meets regularly to devise and monitor strategies, approve acquisitions and disposals, review managerial performance, examine capital expenditures, approve budgets and handle important financial matters. The Board monitors business risk exposures and reviews performance based on strategies, budgetary goals and development programs. The Board also considers employee issues, key appointments and information for shareholders of the Company (the "Shareholders").

The Board meets at least four times a year at approximately quarterly internals and the Directors receive information between meetings about the activities of the Group. All Directors have full and timely access to all relevant information of the Group. In addition to the meetings of the Board, the senior management meets frequently to review and discuss the daily operation of the Group.

Names of the Directors	Directors' Attendance
Executive Directors:	
Li Jinglong	6/6
Zhang Ligong	6/6
Wang Zhongling *(Chief Executive Officer)*	6/6
Independent Non-executive Directors:	
Cheng Ruixiong (appointed on 4 September 2017)	0/0
Kwan King Wah	6/6
Lo Suet Lai	6/6

CODE FOR DIRECTORS' DEALINGS

In connection with the listing of the Company on the Stock Exchange in February 2009, the Company adopted the Model Code as set out in Appendix 10 of the Listing Rules ("Model Code") as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard set out in the Model Code for the year under review.

GENERAL MEETING

During the year under review, the Company convened an annual general meeting of the Company on 5 June 2017. The attendance record is set out below:

Names of the Directors	Directors' Attendance
Executive Directors:	
Li Jinglong	1/1
Zhang Ligong	1/1
Wang Zhongling *(Chief Executive Officer)*	1/1
Independent Non-executive Directors:	
Cheng Ruixiong (appointed on 4 September 2017)	0/0
Kwan King Wah	1/1
Lo Suet Lai	1/1

DIRECTORS' APPOINTMENT, RE-ELECTION AND REMOVAL

Each of executive Directors has entered into a service agreement with the Company for a term of one year subject to termination by either party giving the other not less than three months' prior written notice.

Each of independent non-executive Directors has entered into a formal appointment letter with the Company for a term of one year subject to termination by either party giving the other not less than three months' prior written notice.

In accordance with bye-law 87(1) of the bye-laws of the Company (the "Bye-laws"), all Directors (including executive Directors and independent non-executive Directors) are subject to retirement by rotation at least once every three years. In accordance with bye-law 87(1) of the Bye-laws, Mr. Li Jinglong and Mr. Zhang Ligong will retire and seek re-election at the forthcoming annual general meeting.

In accordance with bye-law 86(2) of the Bye-laws, any Director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Mr. Cheng Ruixiong will retire and seek re-election at the forthcoming annual general meeting.

BOARD MEETINGS AND BOARD PRACTICES

The Board meets at least four times a year and also meets on other occasions when a board-level decision on a particular matter is required. The company secretary of the Company (the "Company Secretary") will assist the Chairman to prepare the agenda of meetings and each Director may request to include any matters in the agenda. The Company Secretary is responsible for distributing detailed documents to Directors prior to the meetings of the Board to ensure that the Directors are able to make informed decisions regarding the matters to be discussed in the meetings so that they may receive accurate, timely and clear information. All Directors may access the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. All Directors will also be provided with sufficient resources to discharge their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of the Board meetings. All minutes of Board meetings were recorded in sufficient detail the matters considered by the Board and decisions reached.

DELEGATION OF POWERS

The Board delegates day-to-day operations of the Group to executive Directors and management of the Company with department heads responsible for different aspects of the business/functions, while reserving certain key matters in making strategic decision for its approval. When the Board delegates aspects of its management and administration functions to management, it gives clear directions as to the powers of management, in particular, with respect to the circumstances where management need to report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

On 5 June 2017, the Company failed to comply with Rules 3.10(1) and 3.21 of the Listing Rules after the retirement of Mr. Liu Wen as an independent non-executive Director, chairman of the nomination committee, member of the audit committee and remuneration committee of the Company. Following the appointment of Mr. Cheng Ruixiong on 4 September 2017, the Company has fulfilled the requirements of the Listing Rules.

Save as disclosed above, there are three independent non-executive directors representing at least one-third of the Board pursuant to Rules 3.10(1) and 3.10A of the Listing Rules. Among the three independent non-executive directors, one has appropriate professional qualification in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The Board evaluates the independence of all independent non-executive Directors on an annual basis and has received written confirmation from each independent non-executive Director regarding his/her independence. As at the date of this report, the Board considers that all independent non-executive Directors are independent and in full compliance with the factors as set out in Rule 3.13 in the Listing Rules.

RELATIONSHIP WITHIN DIRECTORS

None of the Directors and/or members of the senior management are related.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors.

During the year under review, the Company had arranged to provide to all Directors with the "A Guide on Directors' Duties" issued by Companies Registry. Each of the Directors had noted and studied the above mentioned documents and that the Company had received from each of the Directors the confirmations on taking continuous professional training.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer (the "CEO") should be separated and should not be performed by the same individual.

Mr. Liu Wen was the chairman of the Company until 5 June 2017 and Mr. Wang Zhongling, an executive Director, is the Company's CEO. The two positions are held by two separate individuals to ensure their respective independence, accountability and responsibility. Following the retirement of Mr. Liu Wen as an independent non-executive Director on 5 June 2017, the Company is in the progress of identifying suitable candidate to fill the vacancy for the chairman.

BOARD COMMITTEES

The Board has formally established a number of committees and agreed upon their terms of reference. The committees are:

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 28 June 2004 with written terms of reference, which was has revised from time to time, in compliance with the CG Code. The primary function of the Remuneration Committee is to review the remuneration packages of all the Directors and the senior management.

The Remuneration Committee constitutes Ms. Lo Suet Lai, an independent non-executive Director, acting as chairman of the Remuneration Committee with Mr. Cheng Ruixiong and Mr. Kwan King Wah, both of them are also independent non-executive directors, as members.

During the year under review, the Remuneration Committee made recommendations to the Board on remuneration of Directors and senior management and determined on behalf of the Board specific remuneration packages and conditions of employment for executive Directors and senior management with reference to their duties and responsibilities in the Company as well as the prevailing market conditions. The Remuneration Committee also determined the terms and conditions of service of the executive Directors, including the remuneration and grant of options to executive Directors and employees under the share option scheme of the Company and any other future share option schemes and arrangements adopted by the Company. Details of the Directors' remuneration and the executive share option scheme are shown in note 11 to the consolidated financial statements.

During the year under review, one meeting was held. The attendance records for the Remuneration Committee meeting are as follows:

Names of the members	Members' Attendance
Lo Suet Lai *(Chairman)*	1/1
Cheng Ruixiong (appointed on 4 September 2017)	0/0
Kwan King Wah	1/1

The number of senior management of the Group whose remuneration for the year ended 31 December 2017 fell within the following band is as follows:

	Number of senior management
Nil to HK$1,000,000	2

Nomination Committee

The Company established a nomination committee (the "Nomination Committee") on 28 June 2004 with written terms of reference, which was revised from time to time, in compliance with the CG Code. The primary functions of Nomination Committee are to review the structure, size and composition of the Board, assess the independence of both of them are also independent non-executive Directors, and make recommendations to the Board relating the redesignation and appointment of the Directors.

The Nomination Committee constitutes Mr. Cheng Ruixiong, an independent non-executive Director, as chairman of the Nomination Committee with Mr. Kwan King Wah and Ms. Lo Suet Lai, both of them are also independent non-executive Directors, as members.

During the year under review, the Nomination Committee made recommendation to the Board on potential candidates to fill vacancies on the Board. It led the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointments to the Board. It also reviewed the structure, size and composition of the Board and kept under review the leadership needs of the Group to ensure the continued ability of the Group to compete effectively in the market place.

During the year under review, one meeting was held. The attendance record for the Nomination Committee meeting is as follows:

Names of the members	Members' Attendance
Cheng Ruixiong *(Chairman)* (appointed on 4 September 2017)	0/0
Kwan King Wah	1/1
Lo Suet Lai	1/1

Audit Committee

The Company established an audit committee (the "Audit Committee") on 28 June 2004 with written terms of reference, which was revised on 18 December 2015, in compliance with the Listing Rules. The Audit Committee is comprised of three members, namely Mr. Kwan King Wah as chairman with Mr. Cheng Ruixiong and Ms. Lo Suet Lai, both independent non-executive Directors as members. The arrangement of the Audit Committee complied with the Rule 3.21 of the Listing Rules.

The Audit Committee has reviewed with the management and the Company's independent external auditors, HLB Hodgson Impey Cheng Limited ("HLB"), the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting systems including the review of the consolidated financial statements for the year ended 31 December 2017, which have been audited by HLB.

CORPORATE GOVERNANCE FUNCTIONS

During the year under review, the Company's corporate governance functions were carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

COMPANY SECRETARY

The Company has engaged in a service contract with an external service provider, which Mr. Cheung Chi Lok ("Mr. Cheung") is appointed as the Company Secretary. from 31 March 2017. The biography of Mr. Cheung has been set out on page 26 under the section of the Directors and Senior Management.

Being the Company Secretary, Mr. Cheung plays an important role in supporting the board by ensuring good information flow within the Board and that Board policy and procedures are followed.

He has taken more than 15 hours of relevant professional training for the year ended 31 December 2017.

AUDITORS' REMUNERATION

For the year ended 31 December 2017, the remuneration in respect of audit services assignment provided by the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to approximately HK$1,000,000.

The accounts for the year were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditors of the Company at the forthcoming annual general meeting.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2017, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The reporting responsibility of the auditors of the Company on the consolidated financial statements of the Company for the year ended 31 December 2017 are set out in the Independent Auditors' Report.

SHAREHOLDERS' RIGHT

The rights of the shareholders of the Shareholders are set out in the Bye-laws.

Convening a special general meeting

The Shareholders may put forward their proposals or enquiries to the Board by sending their written request to the Company's principal place of business in Hong Kong.

Pursuant to bye-law 58 of the Bye-laws, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special 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 accordance with the provisions of Section 74(3) of the Bermuda Companies Act.

Putting enquiries to the Board

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's principal place of business in Hong Kong.

Putting forward proposals at Shareholders' meeting

Shareholder(s) can also submit a written requisition to move a resolution at a general meeting pursuant to Section 79 to 80 of the Bermuda Companies Act if they (a) represent not less than one-twentieth of the total voting rights of those shareholders having the right to vote at a general meeting; or (b) are not less than one hundred shareholders. The written requisition must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the general meeting and deposited at the Company's principal place of business in Hong Kong.

The written requisition must be signed by all the Shareholders concerned in one or more documents in like form and deposited at the Company's principal place of business in Hong Kong for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, and not less than one week before the meeting in the case of any other requisition. A sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all shareholders in accordance with the requirements under the applicable laws and rules should also be accompanied.

RELATIONS WITH SHAREHOLDERS

The executive Directors and management team meet regularly with institutional investors, fund managers and analysts, as part of an active investor-relations program to discuss long-term issues and receive feedback.

During the year under review, there has been no significant change in the Company's constitutional documents.

INVESTOR RELATIONS

Enquiries relating to the Company's strategy or operations may be directed to:

Address: Room 626-629, Corporation Park, 11 On Lai Street, Siu Lek Yuen, Sha Tin, New Territories, Hong Kong

Email: ir@rcg.tw

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. A year end review of the effectiveness of the Company's and its subsidiaries risk management and internal control systems has been conducted annually and the systems are considered to be effective and adequate. The Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

WHERE MORE INFORMATION ABOUT THE COMPANY IS AVAILABLE

This annual report 2017, and other information on the company, may be reviewed on the website: www.rcg.tw and investor relations webpage: www.rcg.todayir.com.

Directors' Report

The Board of the Company is pleased to present this annual report, together with the Group's audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company incorporated in Bermuda with limited liability. The Group is principally engaged in the provision of biometric and RFID products and solution services, internet and mobile application and related services. There were no changes in the nature of the Group's principal activities during the year. The activities of its principal subsidiaries are set out in note 21 to the consolidated financial statements.

BUSINESS REVIEW

In the opinion of the Directors, the future prospects of the Company is promising. The business review of the Group's for the year is set out in the sections of Director's Statement, Management Discussion and Analysis, Five-Year Financial Summary and the paragraphs below.

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group.

KEY RISK FACTORS

The following lists out the key risks and uncertainties facing the Group.

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year under review.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

The Group is committed to promoting sustainable development, which is extremely important to create long-term value for the Group's shareholders, clients, employees, other stakeholders, as well as general public. The Company cares about the impact of its daily operation on environment and society, strives to set a good example for the public, while conducting business operation, it makes effort to meet the interests of all stakeholders, economy, environment, society and corporate governance and does its best to achieve a fine balance.

For the purpose of disclosing the information in relation to ESG in accordance with the Appendix 27 to the Listing Rules, an ESG report of the Company will be published within three months from the date of this report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2017 are set out in the Consolidated Statement of Profit or Loss on pages 33 to 34.

The Board maintains a cautious view to retain cash for running the business and fund its expansion, thus decided that there will be no dividend paid in respect of the year ended 31 December 2017.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 37 and note 26 to the consolidated financial statements respectively.

SIGNIFICANT INVESTMENTS

Financial assets at fair value through profit or loss

As at 31 December 2017, the Group had financial assets at fair value through profit or loss with a market value of approximately HK$6.8 million.

Details of the significant investments in the portfolio under financial assets at fair value through profit or loss as at 31 December 2017 are as follows:

Name of investee	As at 1 January 2017 HK$'000	Loss on disposal HK$'000	Fair value gain HK$'000	As at 31 December 2017 HK$'000	Percentage to the Group's audited total assets as at 31 December 2017	Number of shares held by the Group as at 1 January 2017	Percentage of shareholding held by the Group as at 1 January 2017	Number of shares held by the Group as at 31 December 2017	Percentage of shareholding held by the Group as at 31 December 2017
CJH (Note)	165,394	(151,250)	–	–	–%	875,100,000	1.17%	–	–
Other listed securities	16,728	(16,347)	3,382	6,776	1.0%				
Total	182,122	(167,597)	3,382	6,776	1.0%				

Note: CJH is engaged in investment holding while the principal subsidiaries are principally engaged in manufacture and sale of umbrellas. Based on CJH's interim report for the six months ended 30 June 2017, revenue and profit of CJH was approximately RMB286.5 million and RMB8.1 million respectively.

At 31 December 2017, there was no investment held by the Group the value of which was more than 5% of the total assets of the Group and no investment held by the Group contributed more than 10% of the realised or unrealised loss for the year ended 31 December 2017.

Available-for-sale financial assets

Save as disclosed above, the Group also held the other investments in listed securities in Hong Kong which was classified as available-for-sale financial assets. As at 31 December 2017, the Group had available-for-sale financial assets with a market value of approximately HK$4.7 million.

Details of the significant investments in the portfolio under available-for-sale financial assets as at 31 December 2017 are as follows:

Name of investee	As at 1 January 2017 HK$'000	Loss on disposal HK$'000	Fair value loss HK$'000	As at 31 December 2017 HK$'000	Percentage to the Group's audited total assets as at 31 December 2017	Number of shares held by the Group as at 1 January 2017	Percentage of shareholding held by the Group as at 1 January 2017	Number of shares held by the Group as at 31 December 2017	Percentage of shareholding held by the Group as at 31 December 2017
China Investment and Finance Group Limited ("CIFG") (stock code: 1226) (Note)	14,842	–	(10,767)	4,074	0.6%	58,202,305	2.58%	58,202,305	2.58%
Other listed securities	8,184	(5,745)	(1,229)	604	0.1%				
Total	23,042	(5,745)	(11,996)	4,678	0.7%				

Note: CIFG is principally engaged in investment holding and trading of securities. Based on CIFG's annual report for the year ended 31 March 2017, revenue, gross proceeds from disposal of listed securities held for trading and profit for the year of CIFG were HK$633,000, HK$358,933,000 and HK$355,764,000 respectively.

The future performance of the listed securities may be influenced by the Hong Kong stock market. In this regard, the Group will continue to maintain a diversified investment portfolio and closely monitor the performance of its investments and the market trends to adjust its investment strategies.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company did not have reserves available for distribution (2016: HK$Nil).

SHARE CAPITAL

Details of movements in the share capital during the year ended 31 December 2017 are set out in note 25 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 16 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 23.0% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 6.4%. Purchases from the Group's five largest suppliers accounted for approximately 51.5% to the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 14.2%.

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the issue share capital of the Company as at the date of this annual report) had any interest in any of the Group's five largest customers and five largest suppliers.

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

Executive Directors:

Li Jinglong
Zhang Ligong
Wang Zhongling *(Chief Executive Officer)*

Independent Non-executive Directors:

Cheng Ruixiong (appointed on 4 September 2017)
Kwan King Wah
Lo Suet Lai
Liu Wen (retired on 5 June 2017)

DIRECTORS' SERVICE CONTRACTS

Each of executive Directors has entered into a service agreement with the Company for a term of one year subject to termination by either party giving the other not less than three months' prior written notice.

Each of independent non-executive Directors has entered into a formal appointment letter with the Company for a term of one year subject to termination by either party giving the other not less than three months' prior written notice.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of information on Directors are as follows:

a) Mr. Li Jinglong has renewed the service agreement with the Company for a term of one year commencing from 27 September 2017 to 26 September 2018;

b) Mr. Zhang Ligong has renewed the service agreement with the Company for a term of one year commencing from 27 September 2017 to 26 September 2018;

c) Mr. Wang Zhongling has renewed the service agreement with the Company for a term of one year commencing from 13 November 2017 to 12 November 2018;

d) Mr. Kwan King Wah has renewed the appointment letter with the Company for a term of one year commencing from 27 August 2017 to 26 August 2018.

e) Ms. Lo Suet Lai has renewed the appointment letter with the Company for a term of one year commencing from 12 September 2017 to 11 September 2018.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

SIGNIFICANT CONTRACT

There is no contract of significance (whether or not for provision of service) was entered into between the Company and its any subsidiaries and the controlling shareholders or its subsidiaries.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

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

As at 31 December 2017, none of the Directors or chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Post Listing Scheme and New Share Option Scheme", at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

Save as disclosed below, as at 31 December 2017, none of the persons or companies had interest or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group.

Name	Capacity	No. of issued ordinary shares of the Company	Approximate percentage of interest
Song Qifeng	Beneficial owner	226,590,000	8.7%

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the year or subsisting at the end of the year are set out below:

Post Listing Scheme and New Share Option Scheme

A post listing share option scheme (the "Post Listing Scheme") was adopted by the Company on 16 October 2008. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 28 June 2013, the Post Listing Scheme was terminated and a new share option scheme (the "New Share Option Scheme") was adopted.

Share Option Schemes

Movements of the share options granted under the Post Listing Scheme during the year ended 31 December 2017 are as follows:

	Date of grant	Outstanding as at 1 January 2017	Movement during the year Granted	Exercised	Lapsed	Cancelled	Outstanding as at 31 December 2017	Vesting period	Exercisable period	Exercise price HK$
Other employees	29.04.2010	303,382	–	–	(303,382)	–	–	–	29.04.2010-28.03.2017	25.44
In aggregate	29.04.2010	12,913	–	–	–	–	12,913	1 year	29.04.2011-28.04.2020	25.44
Total		316,295	–	–	(303,382)	–	12,913			

Movements of the share options under the New Share Option Scheme during the year ended 31 December 2017 are as follows:

	Date of grant	Outstanding as at 1 January 2017	Movement during the year Granted	Exercised	Lapsed	Cancelled	Outstanding as at 31 December 2017	Vesting period	Exercisable period	Exercise price HK$
Eligible participants`	26.01.2016	5,000,000	–	–	–	–	5,000,000	–	26.01.2016-25.01.2019	0.237
	01.06.2017	–	152,320,000	–	–	–	152,320,000	–	01.06.2017-31.05.2027	0.570
	28.07.2017	–	248,370,000	–	–	–	248,370,000	–	28.07.2017-27.07.2027	0.199
Total		5,000,000	400,690,000	–	–	–	405,690,000			

Summary of principal terms of the Post Listing Scheme

The purpose of the Post Listing Scheme is to attract and retain personnel, to provide incentives to participants to work towards enhancing the value of the Company and its share for the benefit of the Company and its shareholders as a whole.

The Board may, at its discretion and on such terms as it may think fit, grant any participant an option as it may determine in accordance with the terms of the Post Listing Scheme. Participants of the Post Listing Scheme comprise Directors (including executive Directors and non-executive Directors) and full time employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, or service providers of any member of the Group.

The total number of shares available for issue under the Post Listing Scheme shall be 12,913 shares, representing 0.01% of the issued shares of the Company as at 31 December 2017.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee (including exercised and outstanding options) in any twelve-month period shall not exceed 1 per cent of the shares in issue for the time being.

The Board may grant options on such terms and subject to such conditions as it thinks fit, including the amount payable on acceptance of the option and the period within which the option must be exercised. The Board may, in its absolute discretion, determine that options will be subject to performance targets that must be achieved before vesting. The Board will determine the minimum period, which shall be no less than one year, for which a share option must be held before it vests and any other conditions in relation to dealing with shares on vesting.

The subscription price payable on the exercise of an option shall be a price determined by the Board at its absolute discretion and notified to a participant and shall be no less than the greatest of: (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; or (iii) the nominal value of the shares.

The Post Listing Scheme was terminated on 28 June 2013, after which period no further options will be offered or granted.

Summary of principal terms of the New Share Option Scheme

The purpose of the New Share Option Scheme is to attract and retain personnel, to provide incentives to participants to work towards enhancing the value of the Company and its share for the benefit of the Company and its shareholders as a whole.

The Board may, at its discretion and on such terms as it may think fit, grant any participant an option as it may determine in accordance with the terms of the New Share Option Scheme. Participants of the New Share Option Scheme comprise Directors (including executive Directors and non-executive Directors) and full time employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, or service providers of any member of the Group.

The total number of shares available for issue under the New Share Option Scheme shall be 405,690,000 shares, representing 14.79% of the issued shares of the Company as at 31 December 2017.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee (including exercised and outstanding options) in any twelve-month period shall not exceed 1 per cent of the shares in issue for the time being.

The Board may grant options on such terms and subject to such conditions as it thinks fit, including the amount payable on acceptance of the option and the period within which the option must be exercised. The Board may, in its absolute discretion, determine that options will be subject to performance targets that must be achieved before vesting. The Board will determine the minimum period, which shall be no less than one year, for which a share option must be held before it vests and any other conditions in relation to dealing with shares on vesting.

The subscription price payable on the exercise of an option shall be a price determined by the Board at its absolute discretion and notified to a participant and shall be no less than the greatest of: (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; or (iii) the nominal value of the shares.

The New Share Option Scheme will be valid and effective for a period of ten years commencing on 28 June 2013, after which period no further options will be offered or granted.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company (other than service contracts with any Director or any person engaged in the full time employment of the Company) were entered into or existed during the year.

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

During the year ended 31 December 2017, there were increases in the issued share capital of the Company through the issuance of 400,000,000 new ordinary shares upon conversion of convertible bonds.

The total number of issued share capital of the Company as at 31 December 2017 was 2,743,729,744 ordinary shares.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

CONNECTED TRANSACTIONS

During the year, there was no connected transaction required to be reported.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

The Company has established the Remuneration Committee in June 2004. The emoluments of the directors of the Company are reviewed and approved by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market trends. The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in heading of "Equity-linked agreements" in this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-Laws; or the laws of Bermuda, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

COMPETITION AND CONFLICT OF INTEREST

None of the Directors or substantial shareholders of the Company or any of their representative close associates has engaged in any business that competes or may compete with the businesses of the Group or has any other conflict of interest with the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, there is sufficient public float as required under the Listing Rules.

CORPORATE GOVERNANCE

Details of the corporate governance practices of the Company are set out in the section of the Corporate Governance Report of this annual report on pages 9 to 15.

CHARITABLE CONTRIBUTIONS

During the year under review, the Group did not make charitable contribution (2016: HK$Nil).

AUDITORS

The accounts for the year ended 31 December 2017 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution for the appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

By order of the Board
Li Jinglong
Executive Director

Hong Kong, 23 March 2018

Directors and Senior Management

EXECUTIVE DIRECTORS

Li Jinglong

Mr. Li Jinglong, aged 58, was appointed as an executive Director on 27 September 2011. He holds a diploma in Business Management from Beijing Society Han Shou University in China. Prior to joining the Group, Mr. Li has, since 2005, been the general manager of Shanghai Yu Heng Pharmaceuticals Technology Company Limited, a company which specialises in surgical dressing and medical consumable products, and where he oversaw the company's long term development plans, daily operations and vendors and distributors management. He was the general manager of ZhongXing Industrial Development Company Limited from 1995 to 2005 where he was responsible for daily operations, trading and business developments of the company. Mr. Li is responsible for the Group's business development in China.

Zhang Ligong

Mr. Zhang Ligong, aged 50, was appointed as an executive Director on 27 September 2011. He holds a diploma in Information Science and Engineering from Beijing Electrical & Information Engineering College in China. Prior to joining the Company, Mr. Zhang has been, since 2006, the deputy general manager of Beijing Zheshi Communications Technology Co. Ltd., a company specialising in home and office security and surveillance systems, and where he spearheaded sales, marketing and business development as well as being responsible for the company's operation and implementation of strategic direction. He was a technical engineer in Beijing Qinghe Textile Factory from 1986 to 2006. Mr. Zhang is responsible for the Group's business development in China.

Wang Zhongling
Chief Executive Officer

Mr. Wang Zhongling, aged 35, was appointed as an executive Director on 13 November 2012 and the chief executive officer of the Company on 2 December 2013. Mr. Wang is also a director of a number of subsidiaries of the Company. He holds a Diploma in Computer Science from the Jiaying College in China. Prior to joining the Company, Mr. Wang was, since 2008, the deputy general manager of Shenzhen Giinwin Technology Co. Ltd., a company specializing in computer intelligence and software development, wireless communication, smart device development, system integration and technical consultancy, where he was responsible for its operation and management. Mr. Wang has had more than 12 years experience in managing smart system projects in the technology sector and has held a number of senior technology related positions. Mr. Wang is responsible for the Group's technology investment and management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Cheng Riuxiong

Mr. Cheng Ruixiong, aged 49, was appointed as an independent non-executive Director on 4 September 2017. He was also appointed as the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee.

Mr. Cheng is currently operating a construction company in China since 2003. Before he established this construction company, he has over 19 years of working and management experience in private and public sectors.

Kwan King Wah

Mr. Kwan King Wah, aged 54, was appointed as an independent non-executive Director on 27 August 2012. He was also appointed as the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee.

Mr. Kwan, formerly known as Kwan Fu Tang and Kwan Chik Wah, is a fellow member of the Hong Kong Institute of Certified Public Accountants. He obtained a Diploma in Accountancy with credit awarded from Hong Kong Tuen Mun Technical Institute and had attended a Microsoft Certified Systems Engineer (MCSE) Course at UniTech Consultancy Limited. Mr. Kwan has had more than 22 years working experiences in providing his expertise in accounting and auditing services to various companies.

Mr. Kwan is the founder and the present sole proprietor to K.W. Kwan & Co., an audit firm which registered with Hong Kong Institute of Certified Public Accountants for practicing as Certified Public Accountants. Mr. Kwan presently holds directorship in one Hong Kong private company, namely Pronet Consulting Limited.

Lo Suet Lai

Ms. Lo Suet Lai, aged 29, was appointed as an independent non-executive Director on 12 September 2016. She was also appointed as the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee.

Ms. Lo graduated from Hong Kong Shue Yan University with Bachelor of Commerce (Honours) in Accounting. Prior to joining the Group, Ms. Lo worked in two international accounting firms in Hong Kong and the accounting work in Wanjia Group Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 401). Ms. Lo is presently acting as a consultant in a Hong Kong private company. She has years of accounting and auditing experiences.

SENIOR MANAGEMENT

Kenny Sim
Chief Financial Officer

Mr. Kenny Sim, aged 42, joined the Group in 2010 as a financial controller. Prior to joining the Group, Mr. Kenny Sim had over 12 years experience in corporate finance, investment management and banking, where he served in various capacities including as chief financial officer, executive director and financial controller of public listed companies. Mr. Kenny Sim is a Chartered Accountant of the Malaysian Institute of Accountants and a Certified Public Accountant of CPA Australia. He obtained his bachelor's degree in Accountancy and master's degree in Finance from the Royal Melbourne Institute of Technology, Australia.

Wang Haoyang
Chief Operating Officer

Mr. Wang, aged 30, was appointed as the chief operating officer of the Company on 8 August 2016. He graduated from East China University of Science and Technology. He has years of management and sales experience in the on-line to off-line platform of media services in China. Prior to joining the Company, Mr. Wang served as the executive of UnionPay Wallet ("UnionPay Wallet") Business Division of China UnionPay Co., Ltd.（中國銀聯股份有限公司）("China UnionPay"), representing China UnionPay to develop UnionPay Wallet business and handling the liaison functions with large national chain group customers, banks and development parties. Prior to joining China UnionPay, Mr. Wang served as the project leader of Ctrip Computer Technology (Shanghai) Co., Ltd. and Dianping.com, respectively.

COMPANY SECRETARY

Cheung Chi Lok

Mr. Cheung holds a Bachelor of Business Administration with a major in Accountancy and a minor in Finance from the Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has worked in an international accounting firm and has years of experience in corporate secretary matters and accountancy.

Statement of Directors' Responsibilities in respect of Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements for each financial year. The consolidated financial statements must give a true and fair view of the state of affairs of the Group, and the Group's profit and loss for that period.

When preparing consolidated financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently

- Make judgments and estimates that are reasonable

- State whether they adhered to applicable accounting standards subject to any material departures disclosed and explained in the consolidated financial statements

- Prepare the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors must keep proper accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Group. The Directors must ensure that the consolidated financial statements comply with applicable laws and follow International Financial Reporting Standards. The Directors must also safeguard the assets of the Group, and take reasonable steps to prevent and detect fraud or other irregularities.

國衛會計師事務所有限公司
HLB Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
CHINA E-WALLET PAYMENT GROUP LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China E-Wallet Payment Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 33 to 102, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year 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 ("**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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Key Audit Matter	How our audit addressed the key audit matter
Impairment assessment of intangible assets	
Refer to note 18 to the consolidated financial statement	
Management performed impairment assessment of brand name and distribution network and concluded that an impairment loss on intangible assets approximately HK$23,257,000 was recognised. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth and capital expenditure. Independent external valuation was obtained in order to support management's estimates.	Our procedures in relation to management's impairment assessment included: • Evaluating the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking on a sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

Key Audit Matter	How our audit addressed the key audit matter
Valuation of redemption option of convertible notes	
Refer to note 20 and 30 to the consolidated financial statement	
Management has estimated the fair value of the Group's redemption option of convertible notes approximately HK$13,575,000 as at 31 December 2017, with fair value loss for the year ended 31 December 2017 recorded in the consolidated statement of profit or loss and other compressive income of approximately HK$81,536,000. Independent external valuations was obtained in order to support the management's estimates. The valuations are dependent on certain key assumptions that required significant management judgement, including risk-free rates and dilution effect.	Our procedures in relation to management's valuation of redemption option of convertible notes included: • Evaluating of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the convertible notes and using our valuation experts; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found that the key assumptions were supported by the available evidence.
Share-based payment expenses	
As set out in note 35 to the consolidated financial statements, share-based payment expenses recorded for the year ended 31 December 2017 amounted to HK$81,680,000. Significant judgement is required to determine the fair value of share options grant.	Our procedures in relation to management's valuation of share-based payment expenses included: • Evaluation of the independent external valuers' competence, capabilities and objectivity; • Assessing the appropriateness of the parameters used in the valuation; and • Assessing the valuation methodology. We found the valuation made by management in assessing the share-based payment expenses to be reasonable based on the evidence obtained.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "**Other Information**").

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 THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 90 of the BERMUDA Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Ms. Wong Sze Wai, Basilia.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Wong Sze Wai, Basilia
Practising Certificate Number: P05806

Hong Kong, 23 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	8	**55,009**	34,386
Cost of sales		**(46,723)**	(35,605)
Gross profit/(loss)		**8,286**	(1,219)
Other revenue and gains	9	**231**	557
Fair value (loss)/gain on derivative financial assets		**(81,536)**	31,062
Unrealised gain/(loss) on financial assets at fair value through profit or loss		**3,382**	(95,019)
Impairment loss on available-for-sales financial assets		**(12,992)**	–
Administrative expenses		**(142,624)**	(32,092)
Other operating expenses		**(195,403)**	(51,842)
Loss from operations	10	**(420,656)**	(148,553)
Finance costs	12	**(4,092)**	(2,190)
Loss before taxation		**(424,748)**	(150,743)
Taxation	13	**30,053**	(32,909)
Loss for the year		**(394,695)**	(183,652)
Loss for the year attributable to:			
Owners of the Company		**(392,785)**	(176,783)
Non-controlling interests		**(1,910)**	(6,869)
		(394,695)	(183,652)
		HK cents	HK cents
Loss per share			
– Basic and diluted	14	**(15.57)**	(10.71)

The accompanying notes from an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Loss for the year		**(394,695)**	(183,652)
Other comprehensive income/(loss) for the year			
Items that may be reclassified to profit or loss:			
Reclassification adjustment relation to impairment loss on available-for-sale financial assets		**(352)**	352
Exchange differences on translating foreign operations		**767**	(2,183)
		415	(1,831)
Total comprehensive loss for the year		**(394,280)**	(185,483)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(392,370)**	(178,614)
Non-controlling interests		**(1,910)**	(6,869)
		(394,280)	(185,483)

The accompanying notes from an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**1,264**	379
Derivative financial assets	20	**13,575**	182,198
Available-for-sale financial assets	19	**4,678**	23,026
Intangible assets	18	**24,032**	57,598
		43,549	263,201
Current assets			
Financial assets at fair value through profit or loss	20	**6,776**	182,122
Trade receivables	22	**46,857**	36,928
Deposits, prepayments and other receivables	23	**523,392**	198,655
Cash and bank balances	24	**37,195**	442,496
		614,220	860,201
Total assets		**657,769**	1,123,402
CAPITAL AND RESERVES			
Share capital	25	**109,749**	93,749
Reserves	26	**477,934**	783,466
Equity attributable to owners of the Company		**587,683**	877,215
Non-controlling interests		**18,852**	20,762
Total equity		**606,535**	897,977

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
LIABILITIES			
Non-current liabilities			
Convertible notes	30	**14,185**	104,973
Deferred tax liabilities	27	**3,449**	55,524
		17,634	160,497
Current liabilities			
Trade payables	28	**20,953**	38,009
Accruals and other payables	29	**11,607**	25,925
Tax payables		**1,040**	994
		33,600	64,928
Total liabilities		**51,234**	225,425
Total equity and liabilities		**657,769**	1,123,402
Net current assets		**580,620**	795,273
Total assets less current liabilities		**624,169**	1,058,474

The consolidated financial statements on pages 33 to 102 were approved and authorised for issue by the board of directors of the Company on 23 March 2018 and signed on its behalf by:

Li Jinglong
Executive Director

Zhang Ligong
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Share Capital HK$'000	Share Premium HK$'000	Available-for-sale securities revaluation reserve HK$'000	Share-based compensation reserve HK$'000	Capital reserve HK$'000	Convertible equity reserve HK$'000	Translation reserve HK$'000	Legal reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2016	60,149	2,502,047	–	4,699	(872)	–	(30,491)	48	(1,870,978)	664,602	27,631	692,233
Loss for the year	–	–	–	–	–	–	–	–	(176,783)	(176,783)	(6,869)	(183,652)
Other comprehensive loss for the year	–	–	–	–	–	–	(2,183)	–	–	(2,183)	–	(2,183)
Reclassification adjustments relating to available-for-sale financial assets	–	–	352	–	–	–	–	–	–	352	–	352
Total comprehensive loss for the year	–	–	352	–	–	–	(2,183)	–	(176,783)	(178,614)	(6,869)	(185,483)
Grant of share option	–	–	–	2,740	–	–	–	–	–	2,740	–	2,740
Issues of shares upon exercise of share option	800	6,132	–	(2,192)	–	–	–	–	–	4,740	–	4,740
Recognition of equity component of convertible notes	–	–	–	–	–	445,899	–	–	–	445,899	–	445,899
Issue of shares upon conversion of convertible notes	32,800	190,702	–	–	–	(285,654)	–	–	–	(62,152)	–	(62,152)
At 31 December 2016 and 1 January 2017	93,749	2,698,881	352	5,247	(872)	160,245	(32,674)	48	(2,047,761)	877,215	20,762	897,977
Loss for the year	–	–	–	–	–	–	–	–	(392,785)	(392,785)	(1,910)	(394,695)
Other comprehensive income for the year	–	–	–	–	–	–	767	–	–	767	–	767
Reclassification adjustments relating to available-for-sales financial assets	–	–	(352)	–	–	–	–	–	–	(352)	–	(352)
Total comprehensive loss for the year	–	–	(352)	–	–	–	767	–	(392,785)	(392,370)	(1,910)	(394,280)
Grant of share options	–	–	–	81,680	–	–	–	–	–	81,680	–	81,680
Lapse of share options	–	–	–	(4,507)	–	–	–	–	4,507	–	–	–
Issue of shares upon conversion of convertible notes	16,000	129,368	–	–	–	(139,343)	–	–	15,133	21,158	–	21,158
At 31 December 2017	109,749	2,828,249	–	82,420	(872)	20,902	(31,907)	48	(2,420,906)	587,683	18,852	606,535

Consolidated Statement of Cash Flow

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Operating activities			
Loss before taxation		**(424,748)**	(150,743)
Adjustments for:			
Amortisation of intangible assets	18	**10,309**	10,310
Depreciation	16	**615**	445
Loss on disposal of property, plant and equipment		**5**	–
Realised loss on disposal of financial asset at fair value through profit or loss	10	**167,597**	16,027
Realised loss on disposal of available-for-sale financial assets though profit or loss	10	**4,395**	–
Impairment loss on trade receivables	22	**154**	338
Impairment loss on intangible assets	18	**23,257**	9,411
Impairment loss on goodwill		**–**	26,066
Fair value loss/(gain) on derivative financial assets	30	**81,536**	(31,062)
Fair value loss on available-for-sale financial assets		**12,992**	–
Unrealised (gain)/loss arising on fair value of financial assets at fair value through profit or loss		**(3,382)**	95,019
Bank interest income	9	**(1)**	(84)
Share-based payment expenses	10	**81,680**	2,740
Finance costs	12	**4,092**	2,119
Operating cash flow before movements in working capital		**(41,499)**	(19,414)
Increase in trade receivables		**(10,083)**	(20,827)
Increase in deposits, prepayment and other receivables		**(312,757)**	(148,384)
(Decrease)/increase in trade payables		**(17,056)**	25,549
(Decrease)/increase in accruals and other payables		**(21,128)**	1,595
Purchase of financial assets at fair value through profit or loss		**(4,086)**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**3,237**	4,105
Cash used in operations		**(403,372)**	(157,376)
Bank interest income received	9	**1**	84
Interest paid		**(1,768)**	(923)
Income tax paid		**(33)**	(50)
Net cash used in from operating activities		**(405,172)**	(158,265)

Consolidated Statement of Cash Flow

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Investing activities			
Purchase of property, plant and equipment	16	**(1,513)**	(43)
Proceeds from disposal of property, plant and equipment		**10**	–
Proceeds from disposal of available-for-sales financial asset		**609**	–
Payment for purchase of available-for-sales financial asset		**–**	(22,674)
Net cash used in investing activities		**(894)**	(22,717)
Financing activities			
Issue of new shares pursuant to exercise of share options		**–**	4,740
Issue of convertible notes		**–**	320,000
Expenses in relation to issue of share pursuant convertible notes		**–**	(4,799)
Net cash generated from financing activities		**–**	319,941
Net (decrease)/increase in cash and cash equivalents		**(406,066)**	138,959
Cash and cash equivalents at the beginning of the year	24	**442,496**	305,721
Effect of exchange rate change		**765**	(2,184)
Cash and cash equivalents at the end of the year		**37,195**	442,496
Analysis of the balances of cash and cash equivalents:			
Cash at bank and on hand		**37,195**	442,496
Cash at other financial institution		**–**	–
Cash and cash equivalents at the end of the year		**37,195**	442,496

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Ms. Cheng Hei Yu is the substantial shareholder of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 21.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company and all values are rounded to nearest thousand except otherwise indicated.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the disclosure requirements of Hong Kong Companies Ordinance.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which have been measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of International Financial Reporting Standards ("**IFRSs**") 2, leasing transactions that are within the scope of International Accounting standards ("**IAS**") 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

3. BASIS OF PREPARATION (CONTINUED)

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

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

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in note 6. These policies have been consistently applied to all the years presented, unless otherwise stated. Certain comparative figures of prior years have been re-presented to conform with current year's presentation.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS")

In the current year, the Group has applied for the first time, the following new and revised standards, amendments and interpretations ("**new and revised IFRSs**") issued by the IASB, which are effective for the Group's financial year beginning on or after 1 January 2017:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

The Group's liabilities arising from financing activities consist of convertible notes in note 30. A reconciliation between the opening and closing balances of these items is provided in note 37. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

5. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC – Int 23	Uncertainty over income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 28	Long-term Interests in Associates and Joint Venture[2]
Amendments to IAS 28	As part of the Annual improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2021.

5. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 9 "Financial Instruments"

IFRS 9 introduced new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business mode whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to change in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have accrued before credit loss are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test had been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

5. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Key requirements of IFRS 9 (Continued)

Classification and measurement

Listed equity securities at fair value are classified as available-for-sale financial assets carried at fair value as disclosed in note 19, these shares qualify for designation as measured at fair value through other comprehensive income under IFRS 9; however, the fair value gains or losses accumulated in the investment revaluation reserve will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income.

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on rental and other receivables and fixed deposits with financial institutions. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

5. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 15 Revenue from Contracts with Customers (Continued)

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

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

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

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

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

As at 31 December 2017, the Group as lessee has non-cancellable operating lease commitments of HK$2,227,000. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

Management is the process of making an assessment of the impact of other new standards, amendments to standards and interpretations and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

6. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

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

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Business combinations

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

Acquisition-related costs are generally recognised in profit or loss as incurred.

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

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

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see note above); and

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

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

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

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Business combinations (Continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(c) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(d) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied.

(i) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

(ii) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(iii) the amount of revenue can be measured reliably;

(iv) it is probable that the economic benefits associated with the transaction will flow to the Group; and

(v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Revenue recognition (Continued)

Rendering of services

Revenue from provision of biometric and RFID solution services and development of internet and web software are recognised when the services are rendered.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and amount of income can be measured reliably.

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

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided at rates calculated to write off the cost of property, plant and equipment, less their estimated residual value, over their expected useful lives, using straight-line method.

The principal annual rates are as follows:

Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Mould	20%
Motor vehicles	20%
Development tools	20%

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(g) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of tangible and intangible assets other than goodwill (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease (see note above).

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (see note above).

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a weighted average basis. Net realisable value represents 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.

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

(i) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong Dollars ("**HKD**"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Foreign currencies (Continued)

Exchange differences are recognised in the income statement in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the income statement on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing at the end of the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (ie. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset. All of the exchange differences accumulated inequity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments of identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translation at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(j) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of profit or loss and other comprehensive income 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.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of goodwill.

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting date, to recover or settle the carrying amount of its assets and liabilities.

(k) Retirement benefit costs

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

Pursuant to the relevant laws and regulations, the subsidiaries in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("**EPF**"). Contributions are made based on a percentage of the employees' basic salaries and such contributions are recognised as an expense in the income statement as incurred.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Retirement benefit costs (Continued)

(i) Short term employee benefits and contributions to defined contribution retirement plans (Continued)

Pursuant to the relevant regulations of the government of the People's Republic of China (the "**PRC**"), the subsidiaries operating in the PRC have participated in central pension schemes (the "**Schemes**") operated by local municipal governments, whereby the subsidiaries in the PRC are required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries in the PRC. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above.

Contributions under the Schemes are charged to the income statement as incurred. There are no provisions under the Schemes whereby forfeited contributions may be used to reduce future contributions.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share-based compensation reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses with a corresponding increase in equity (share-based compensation reserve), when the Group obtains the goods or when the counter parties render services, unless the goods or services qualify for recognition as assets.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3, applies (ii) held for trading, or (iii) it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated income statement.

Fair value is determined in the manner described in note 20.

Convertible notes

The component parts of convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (Continued)

Financial assets (Continued)

Convertible notes (Continued)

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

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

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

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed equity instruments by the Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. Fair value is determined in the manner described in note 19. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see above), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in income statement. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale securities revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to income statement.

Dividends on AFS equity instruments are recognised in income statement when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, deposits, prepayments and other receivables, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as a default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. 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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of available-for-sale securities revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities

Other financial liabilities (including trade and bills payables, accruals and other payables, amount due to a shareholder, amount due to a related company and borrowings) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and other short-term highly liquid investments that are directly convertible to a known amount of cash and are insignificant risk of change in value.

(n) 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 added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(o) Leasing

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

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group¡¦s general policy on borrowing costs (see note above). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Related parties transactions

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) both entities are joint ventures of the same third party;

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

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employees are also related to the Group;

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

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

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(r) Operating segments

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

The key management consider the business for both business and geographic respective. Business respective include Internet & Mobile's Application & Related Accessories and Trading of Security & Biometric Products operating segments. Geographic respective include Southeast Asia (include China) and Middle East.

7. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and area involving a high degree of judgements are described below:

(a) Estimated impairment of goodwill

The management of the Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 6(c). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The management would refer to the valuation performed by independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions.

(b) Useful lives of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these assets to be 3-5 years. As changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, future depreciation charges could be revised. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

7. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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.

(d) Impairment of trade and other receivables

The debt profile of trade and other receivables is reviewed on a regular basis to ensure that the trade and other receivables balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However from time to time, the Group may experience delays in collection. Where recoverability of trade and other receivables balances are called into doubts, specific provisions for trade and other receivables are made based on credit status of the debtors, the aged analysis of the receivables balances and written-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the consolidated statement of comprehensive income. Changes in the collectability of trade and other receivables for which provision are not made could affect the results of operations.

(e) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are primarily based on market conditions existing at the end of each reporting period.

(f) Impairment of intangible assets

The directors of the Company reconsidered the recoverability of the Group's intangible assets "logo", "contract rights", "product development and design", "mobile applications software and technology" and "brand name and distribution networks". The recoverable amounts of the intangible assets have been determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. The management refers to the valuation performed by independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions.

(g) Impairment of available-for-sale financial assets

The directors of the Company considered the recoverability of the Group's available-for-sale financial assets. by the recoverable amount of the available-for-sale financial assets which have been determined based on fair value which derived from quoted bid prices in the market. When the fair value of available-for-sales financial assets decrease, the directors required to uses its judgements to consider whether the decrease in fair value is significant and prolonged and recognised the impairment.

7. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(h) Valuation of Share Options

As explained in note 35, share option expense is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimated including limited early exercise behaviour expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material charges in the amount of share option benefits recognised in the profit or loss and share-based payment services.

(i) Fair value measurement of derivative financial instruments

The derivative financial instruments have been valued based on valuation technique. The valuation required the Group to make estimates about earning volatility, earning growth rate and discount rate, and hence they are subject to uncertainty. Further details are contained in Notes 20 and 30 to the consolidated financial statements.

8. REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker has been identified as the key management. This key management reviews the Group's internal reporting in order to assess performance and allocate resources. Key management has determined the operating segments based on these reports.

The key management considers the business from both a business and geographic perspective. From business perspective, key management assesses the performance of internet and mobile's application and related accessories and trading of security and biometric products operating segments.

– Internet & mobile's application and related accessories segment are mobile payment platform and gaming industry and in particular in application development for merchants, online gaming, utilities application for IOS and mass advertising;

– Trading of security & biometric products segment consists of biometrics and RFID products for consumer applications. Examples include the m-series fingerprint door locks and FX-Secure-Key. Also, it carries biometric and RFID products and components for commercial use, such as i-series and s-series fingerprint authentication devices, together with EL-1000 and XL-1000 controllers forming access control, r-series RFID readers and controllers and K-series multi-modal security devices combining facial recognition, fingerprint authentication, password and RFID. The Group predominantly sells to distributors, system integrators and security system providers.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segments performance is evaluated base on reportable segments gross profit/(loss), which is a measure of segment profit/(loss).

8. REVENUE AND SEGMENT INFORMATION (CONTINUED)

The following table presents the Group's turnover, segment results and other information for business segments:

	Internet and Mobile's Application and Related Accessories		Trading of Security and Biometric Products		Unallocated		Total	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Revenue – external sales	54,952	34,335	57	51	–	–	55,009	34,386
Segment results	8,283	(1,220)	3	1	–	–	8,286	(1,219)
Unallocated other operating income					231	557	231	557
Change in fair value of derivative financial assets					(81,536)	31,062	(81,536)	31,062
Change in fair value of financial assets at fair value through profit or loss					3,382	(95,019)	3,382	(95,019)
Depreciation	(572)	(313)	(7)	(39)	(36)	(93)	(615)	(445)
Amortisation of intangible assets	(10,309)	(10,310)	–	–	–	–	(10,309)	(10,310)
Impairment loss on available-for-sale financial assets	–	–	–	–	(12,992)	–	(12,992)	–
Impairment loss on trade receivables	(154)	(338)	–	–	–	–	(154)	(338)
Impairment loss on goodwill	–	(26,066)	–	–	–	–	–	(26,066)
Impairment loss on intangible assets	(23,257)	(9,411)	–	–	–	–	(23,257)	(9,411)
Unallocated expenses					(303,692)	(37,364)	(303,692)	(37,364)
Finance costs					(4,092)	(2,190)	(4,092)	(2,190)
Loss before taxation							(424,748)	(150,743)
Taxation							30,053	(32,909)
Loss for the year							(394,695)	(183,652)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2016: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 6. Segment profit represents the profit earned/(loss) incurred by each segment without allocation of other revenue and gains, change in fair value of financial assets at fair value through profit or loss, change in fair value of derivative financial assets, administrative expenses, other operating expenses, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

8. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than derivative financial assets, available-for-sale financial assets, financial assets at fair value through profit or loss and other financial assets. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to operating segments other than convertible notes, deferred tax liabilities and other financial liabilities. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

	Internet and Mobile's Application and Related Accessories		Trading of Security and Biometric Products		Unallocated		Total	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Segment assets	61,900	290,474	100	1,785	595,769	831,143	657,769	1,123,402
Segment liabilities	34,484	32,170	321	394	16,429	192,861	51,234	225,425
Other segment information:								
Capital expenditure	1,513	–	–	43	–	–	1,513	43
Depreciation	(572)	(313)	(7)	(39)	(36)	(93)	(615)	(445)
Amortisation of intangible assets	(10,309)	(10,310)	–	–	–	–	(10,309)	(10,310)
Impairment loss on trade receivables	(154)	(338)	–	–	–	–	(154)	(338)
Impairment loss on goodwill	–	(26,066)	–	–	–	–	–	(26,066)
Impairment loss on intangible assets	(23,257)	(9,411)	–	–	–	–	(23,257)	(9,411)
Reversal of written off on trade receivables	–	–	8	–	–	310	8	310
Impairment loss on available-for-sales financial assets	–	–	–	–	(12,992)	–	(12,992)	–
Loss on disposal of property, plant and equipment	(5)	–	–	–	–	–	(5)	–
Realised loss on financial asset through profit or loss	–	–	–	–	(167,597)	(16,027)	(167,597)	(16,027)
Realised loss on available-for-sales financial assets	–	–	–	–	(4,395)	–	(4,395)	–
Unrealised gain/(loss) on financial asset through profit or loss	–	–	–	–	3,382	(95,019)	3,382	(95,019)
Fair value (loss)/gain on derivative financial assets	–	–	–	–	(81,536)	31,062	(81,536)	31,062

Revenue from major products and services

The Group's revenue from its major products and services were as follow:

	2017 HK$'000	2016 HK$'000
Internet & Mobile's Application & Related Accessories	54,952	34,335
Trading of Security & Biometric Products	57	51
	55,009	34,386

8. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group operates in two principal geographical areas – Hong Kong and Other Asian Countries. The following tables provide an analysis of the Group's revenue, segment results and other information by geographical areas, irrespective of the origin of the goods and services:

Revenue and Segment results

	Revenue		Segment results	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Hong Kong	10,168	16,965	3,123	(3,585)
Other Asian Countries	44,841	17,421	5,163	2,366
	55,009	34,386	8,286	(1,219)

	Segment assets		Segment liabilities		Additions to non-current assets		Amortisation and deprecation	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Hong Kong	180,549	1,084,640	40,782	218,982	1,513	–	10,908	10,713
Other Asian Countries	477,220	38,762	10,452	6,443	–	43	16	41
	657,769	1,123,402	51,234	225,425	1,513	43	10,924	10,754

No customer contribute 10% or more of the total revenue for the years ended 31 December 2016 and 2017.

9. OTHER REVENUE AND GAINS

	2017 HK$'000	2016 HK$'000
Other revenue		
Bank interest income	**1**	84
Dividend income	**5**	7
Sundry income	**217**	156
	223	247
Other gains		
Reversal of written off on trade receivables	**8**	310
Total	**231**	557

10. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	2017 HK$'000	2016 HK$'000
Depreciation	**615**	445
Cost of inventories sold	**38,773**	2,791
Amortisation of intangible assets	**10,309**	10,310
Loss on disposal of property, plant and equipment	**5**	–
Impairment loss on trade receivables*	**154**	338
Impairment loss on intangible assets*	**23,257**	9,411
Realised loss on financial assets at fair value through profit and loss*	**167,597**	16,027
Realised loss on available-for-sale financial assets*	**4,395**	–
Impairment loss on goodwill*	**–**	26,066
Foreign exchange loss	**2**	8
Auditors' remuneration		
– Audit services	**1,000**	1,500
– Other services	**–**	16
Operating lease rentals in respect of premises	**2,456**	2,056
Share-based payment	**81,680**	2,740
Staff costs, including directors' and chief executive officer's remuneration	**4,072**	3,973
Retirement benefit schemes contribution	**167**	156

* Items included in other operating expenses

11. STAFF COSTS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' and chief executive officer's remuneration

Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and Hong Kong Listing Rules):

	Directors' fees		Salaries and bonus		Retirement scheme contribution		Employee share option benefits		Total	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Chief executive officer and executive director:										
Wang Zhongling	240	240	–	–	–	–	–	–	240	240
Executive directors:										
Li Jinglong	180	180	–	–	–	–	–	–	180	180
Zhang Ligong	180	180	–	–	–	–	–	–	180	180
	360	360	–	–	–	–	–	–	360	360
Independent non-executive directors:										
Liu Wen[3]	90	180	–	–	–	–	–	–	90	180
Kwan King Wah	180	180	–	–	–	–	–	–	180	180
Tse Chin Pang[1]	–	60	–	–	–	–	–	–	–	60
Lo Suet Lai[2]	120	40	–	–	–	–	–	–	120	40
Cheng Ruixiong[4]	40	–	–	–	–	–	–	–	40	–
	430	460	–	–	–	–	–	–	430	460
	1,030	1,060	–	–	–	–	–	–	1,030	1,060

Notes:

1 Retired on 30 June 2016
2 Appointed on 12 September 2016
3 Retired on 5 June 2017
4 Appointed on 4 September 2017

(b) Key management personnel

Remuneration for key management personnel, including directors' and chief executive officer's remuneration, was as follows:

	2017 HK$'000	2016 HK$'000
Salaries and bonus	2,146	2,237
Retirement scheme contribution	90	103
	2,236	2,340

11. STAFF COSTS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(c) Employee

Staff costs, excluding the remuneration for key management personnel and directors' and chief executive officer's remuneration, were as follows:

	2017 HK$'000	2016 HK$'000
Wages, salaries and bonus	1,493	1,216
Retirement scheme contribution	77	53
Welfare	433	520
	2,003	1,789

(d) Five highest paid individuals

The five highest paid individuals of the Group include no (2016: nil) directors of the Company.

The remuneration paid to the five highest paid individuals (including five (2016: five) individual of senior management) of the Group during the year was as follows:

	2017 HK$'000	2016 HK$'000
Salaries and bonus	2,431	2,533

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

	2017	2016
Nil to HK$1,000,000	5	5

During the year, no emoluments were paid by the Group to the executive directors, chief executive officer, or any of the independent non-executive directors, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office nor has any director waived or agreed to waive any emoluments.

(e) Senior management of the Group

The number of the senior management of the Group are within the following band:

	2017	2016
Nil to HK$1,000,000	4	4

During the year, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office. None of the senior management waived or agreed to waive any emoluments during the year.

12. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Bank charges	–	71
Interest expenses on convertible notes (Note 30)	4,092	2,119
	4,092	2,190

13. TAXATION

	2017 HK$'000	2016 HK$'000
Current tax:		
– Hong Kong	79	12
Provision of deferred tax recognised in the current year (Note 27)	(30,132)	32,897
	(30,053)	32,909

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% (2016:16.5%) of the estimated assessable profit for the year ended.

Malaysia

Malaysia Income Tax is calculated at the statutory tax rate of 25% (2016: 25%) of the estimated assessable profit for the year. The corporate tax for companies with paid-up capital of Malaysian Ringgit 2.5 million and below at the beginning of the basis period for the years of assessment are as follows: The first Malaysian Ringgit 500,000 chargeable income is charged at the rate of 20% (2016: 20%) for the year and the amount of chargeable income exceeding Malaysian Ringgit 500,000 is charged at the rate of 25% (2016: 25%) for the year.

13. TAXATION (CONTINUED)

The PRC

The PRC Enterprise Income Tax ("**PRC EIT**") is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Under the PRC Enterprise Income Tax Law (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of a PRC subsidiary is 25% from 1 January 2008 onwards.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The income tax expense for the year 2017 and 2016 can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 HK$'000	2016 HK$'000
Loss before taxation	**(424,748)**	(150,743)
Income tax expense calculated at 25% (2016: 25%)	**(106,187)**	(37,686)
Tax effect of recognised temporary difference	**(1,701)**	(1,701)
Tax effect of income not taxable for tax purposes	**(9,236)**	(7,868)
Tax effect of expenses not deductible for tax purposes	**50,945**	57,410
Effect of different tax rates of subsidiaries operating in other jurisdictions	**33,724**	12,422
Effect of estimated tax losses not recognised	**2,402**	10,332
	(30,053)	32,909

14. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the Group's loss attributable to owners of the Company of HK$392,785,000 (2016: HK$176,783,000) and weighted average number of ordinary shares in issue during the year of 2,523,400,977 (2016: 1,650,669,635).

The basic and diluted loss per share from operations are the same for years ended 31 December 2017 and 2016 respectively, as the effect of the share options and convertible notes outstanding were anti-dilutive.

15. DIVIDENDS

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

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Mould HK$'000	Motor vehicles HK$'000	Development tools HK$'000	Total HK$'000
Cost						
As at 1 January 2016	664	6,815	2,000	1,483	39,291	50,253
Additions	–	43	–	–	–	43
Disposals	–	–	–	–	–	–
Exchange alignment	–	(148)	–	–	–	(148)
As at 31 December 2016 and 1 January 2017	664	6,710	2,000	1,483	39,291	50,148
Additions	249	436	–	828	–	1,513
Disposals	(108)	(729)	–	–	–	(837)
Exchange alignment	–	43	–	–	–	43
As at 31 December 2017	**805**	**6,460**	**2,000**	**2,311**	**39,291**	**50,867**
Accumulated depreciation						
As at 1 January 2016	535	6,706	2,000	941	39,291	49,473
Charge for the year	104	72	–	269	–	445
Disposals	–	–	–	–	–	–
Exchange alignment	–	(149)	–	–	–	(149)
As at 31 December 2016 and 1 January 2017	639	6,629	2,000	1,210	39,291	49,769
Charge for the year	99	172	–	344	–	615
Disposals	(108)	(714)	–	–	–	(822)
Exchange alignment	–	41	–	–	–	41
As at 31 December 2017	**630**	**6,128**	**2,000**	**1,554**	**39,291**	**49,603**
Carrying amount						
As at 31 December 2017	**175**	**332**	**–**	**757**	**–**	**1,264**
As at 31 December 2016	25	81	–	273	–	379

17. GOODWILL

	2017 HK$'000	2016 HK$'000
Cost		
As at the beginning of the year and as at the end of the year	**182,880**	182,880
Accumulated impairment losses		
As at the beginning of the year	**182,880**	156,814
Impairment loss recognised during the year (Note a & b)	**–**	26,066
Exchange alignment	**–**	–
As at end of the year	**182,880**	182,880
Carrying amount		
As at end of the year	**–**	–

The carrying amount of goodwill allocated to cash-generating units ("**CGUs**") that are significant individually or in aggregate is as follows:

	2017 HK$'000	2016 HK$'000
Provision of applications on mobile platforms (Note a)	**–**	–
Provision of advertising on mobile platforms (Note b)	**–**	–
	–	–

The directors of the Company had assessed the recoverable amount of goodwill as at 31 December 2016 by reference to the valuations as at 31 December 2016 performed by an independent firm of qualified valuer.

Note:

(a) The directors of the Company had appointed an independent valuer to perform a business valuation on the CGU of provision of applications on mobile platforms containing goodwill and intangible assets which was acquired from the business combination during year ended 31 December 2016.

For the purpose of impairment testing, the carrying amounts of goodwill and mobile application software and technology (including in intangible assets set out in note 18) after impairment loss, have been allocated to the CGU for provision of advertising and entertainment applications on mobile platforms are as follows:

	2017 HK$'000	2016 HK$'000
Goodwill	**–**	–
Intangible asset:		
Mobile application software and technology (Note 18)	**–**	10,309
	–	10,309

17. GOODWILL (CONTINUED)

Note: (Continued)

(a) (Continued)

The recoverable amount of provision of applications on mobile platforms has been determined on the basis of value in use calculation and is based on certain key assumptions. The value in use calculation is based on cash flow projections prepared from financial budgets approved by the directors of the Company covering a 5-year period and a discount rate of 13.28%. Cash flows beyond the 5-year period are extrapolated using a 5% growth rate and the growth rate does not exceed the average long-term growth rate for the industry.

The cash flow projections are prepared base on the expected gross margins determined based on past performance of provision of advertising and entertainment applications on mobile platforms and management expectations for market developments. The discount rates was estimated reflect current market assessment of the time value of money and the risk specific to the relevant CGUs in the market.

During the years ended 31 December 2016 and 2017, no impairment loss of goodwill and intangible assets were recognised to the consolidated statement of profit or loss and other comprehensive income.

(b) The recoverable amount of provision of advertising on mobile platforms has been determined on the basis of value in use calculation and is based on certain key assumptions. The value in use calculation is based on cash flow projections prepared from financial budgets approved by the directors of the Company covering a 5-year period and a discount rate of 15% (2016: 14.36%). Cash flows beyond the 5-year period are extrapolated using a 3% (2016: 5%) growth rate and the growth rate does not exceed the average long-term growth rate for the industry.

During the year ended 31 December 2017, impairment loss of goodwill and intangible assets were recognised to the consolidated statement of profit or loss and other comprehensive income was HK$Nil (2016: HK$26,066,000) and approximately HK$23,257,000 (2016: HK$9,411,000) respectively as the poor performance of the advertising on mobile platforms.

The cash flow projections are prepared based on the expected gross margins determined based on past performance of provision of advertising on mobile platforms and management's expectations for the market development. The discount rates was estimated using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the relevant CGUs in the market.

The directors of the Company has appointed an independent valuer to perform a business valuation on the CGU of provision of advertising on the mobile platforms containing goodwill and intangible assets.

For the purpose of impairment testing, the carrying amounts of brand name and distribution network (including intangible assets set out in note 18) after impairment loss, have been allocated to the CGU for provision of advertising on mobile platforms are as follows:

	2017 HK$'000	2016 HK$'000
Goodwill	–	–
Intangible asset:		
Brand name and distribution network (Note 18)	24,032	47,289
	24,032	47,289

The key assumptions used in the value in use calculations are as follows:

Budgeted market share and sales	Average market share and sales in the period immediately before the budget period is expected to be unchanged over the budget period. The values assigned to the assumptions reflect past experience, except for the growth factor, which is consistent with management plans for focusing operations by the industry. Management believes that the planned market share growth and budgeted sales over the budget period is reasonably achievable.
Budgeted gross margin	Average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

18. INTANGIBLE ASSETS

The movement of intangible assets during the year was as follows:

	Logo	Product Development and design	Contract rights	Mobile application software and technology	Brand name and distribution network	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost						
As at 1 January 2016	148	629,637	1,199,321	98,000	56,700	1,983,806
As at 31 December 2016, 1 January 2017 and 31 December 2017	**148**	**629,637**	**1,199,321**	**98,000**	**56,700**	**1,983,806**
Accumulated amortisation and impairment						
As at 1 January 2016	148	629,637	1,199,321	77,381	–	1,906,487
Amortisation for the year	–	–	–	10,310	–	10,310
Impairment loss for the year	–	–	–	–	9,411	9,411
As at 31 December 2016 and 1 January 2017	148	629,637	1,199,321	87,691	9,411	1,926,208
Amortisation for the year	–	–	–	10,309	–	10,309
Impairment loss for the year	–	–	–	–	23,257	23,257
As at 31 December 2017	**148**	**629,637**	**1,199,321**	**98,000**	**32,668**	**1,959,774**
Carrying amount						
As at 31 December 2017	**–**	**–**	**–**	**–**	**24,032**	**24,032**
As at 31 December 2016	–	–	–	10,309	47,289	57,598

Amortisation charge of approximately HK$10,309,000 (2016: HK$10,310,000) for the year is included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The intangible assets “logo”, “product development and design”, “contract rights” and “mobile application software and technology” as above amortised over its estimated useful lives, which are 5, 5, 10 and 5 years respectively.

18. INTANGIBLE ASSETS (CONTINUED)

Impairment of intangible assets

Mobile application software and technology

During the year ended 31 December 2016, the directors of the Company assessed the recoverable amount of the intangible assets of mobile application software and technology and no impairment was recognised. The discount rate used and other key assumptions used in the value in use calculation are disclosed in note 17(a) to the consolidated financial statements.

Brand name and distribution network

During the year ended 31 December 2017, the directors of the Company assessed the recoverable amount of the intangible assets of brand name and distribution network and recognised an impairment loss of approximately HK$23,257,000 (2016: HK$9,411,000) for brand name and distribution network. The discount rate used and other key assumptions used in the value in use calculation are disclosed in note 17(b) to the consolidated financial statements. The impairment losses have been included in the consolidated statement of profit or loss and other comprehensive income.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 HK$'000	2016 HK$'000
Equity securities at fair value:		
Listed in Hong Kong	**4,678**	23,026

For listed equity securities, the fair value as determined based on the quoted market bid prices available on the relevant stock exchange.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Listed investments		
Listed equity securities in Hong Kong	**6,776**	182,122
Derivative financial instruments:		
Redemption option of convertible notes	**13,575**	182,198
Fair value	**20,351**	364,320

All financial assets at fair value through profit or loss are stated at fair value. The fair value of listed securities in Hong Kong is determined based on quoted market bid price available on The Stock Exchange of Hong Kong Limited.

21. PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries are set out below:

Name	Place and date of incorporation or establishment	Ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
RCG Holdings Limited	British Virgin Islands ("**BVI**") 5 January 2005	US$1	100%	Investment holding
RCG Investment Pte Limited	Singapore 4 May 2011	US$2	100%	Investment in financial assets
Indirectly held				
RCG Hong Kong Holdings Limited	BVI 20 October 1999	US$200	100%	Investment holding
RCG International Holdings Limited	BVI 18 April 2005	US$1,000	100%	Investment holding
Sharp Asia International Limited	BVI 18 April 2005	US$1,000	100%	Investment holding
RCG Malaysia Sdn. Bhd.	Malaysia 7 December 2006	RM2	100%	Investment holding
RCG Corporation Limited	Hong Kong 26 November 1999	HK$2	100%	Hardware and software development
RCG China Limited* （宏霸數碼科技（北京）有限公司）	PRC 14 September 2006	RMB27,505,570	100%	Software and hardware and provision consultancy of services
Biotag International Limited	BVI 29 August 2011	US$2	100%	Investment holding
Tag Station MSC Sdn. Bhd.	Malaysia 22 January 2009	RM5,000,010	100%	Research, development of RFID solution and provision of consultancy services

21. PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name	Place and date of incorporation or establishment	Ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Most Ideas Limited	BVI 3 January 2012	US$50,000	55%	Investment holding
MG Interactive Limited	Hong Kong 21 June 2016	HK$1,000	55%	Development of Internet and web software
MG Interactive Entertainment Limited	Hong Kong 6 March 2007	HK$980,000	55%	Development of Internet and web software
Easy Ideas Limited	BVI 3 January 2012	US$2	74%	Investment holdings
Techno Vision Limited	Hong Kong 14 February 2012	HK$10,000	74%	Computer system developments
盈科創見科技(深圳)有限公司*	PRC 9 August 2012	RMB1,000,000	74%	Computer system developments

* Wholly-owned foreign enterprises in the PRC.

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

22. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
0 to 30 days	**3,997**	2,982
31 to 60 days	**5,160**	2,280
61 to 90 days	**5,913**	2,350
91 to 180 days	**10,278**	3,892
Over 180 days	**21,663**	25,762
	47,011	37,266
Impairment loss on trade receivables	**(154)**	(338)
	46,857	36,928

The Group has no significant concentrations of credit risk, with exposure spreads over a large number of customers.

The trade receivables are generally on 30-180 day credit terms.

Past due but not impaired

Included in the Group's trade receivables balances are debts with carrying amount of HK$21,663,000 (2016: HK$Nil) which were past due at the end of the reporting period. In the opinion of the directors of the Company, the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

Aging of receivables that are past due but not impaired

	2017 HK$'000	2016 HK$'000
Over 180 days	**21,663**	25,762

Impairment of trade receivables

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base is large and unrelated. Accordingly, the directors of the Company believe that there is no further credit provision required in excess of the impairment of trade receivables.

Reconciliation of impaired trade receivables

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	**–**	–
Impairment losses recognised on trade receivables	**154**	338
Impairment losses reversed	**(8)**	(310)
Amounts written off during the year as uncollectible	**(146)**	(28)
Balance at end of the year	**–**	–

For the year ended 31 December 2017, the directors of the Company assessed the impairment loss recognised on trade receivables of approximately HK$154,000 (2016: HK$338,000) due to long aged debt. The Group does not hold any collateral over these balances.

22. TRADE RECEIVABLES (CONTINUED)

Aging of impaired trade receivables

	2017 HK$'000	2016 HK$'000
Overdue by	–	–
Over 180 days	154	338
	154	338

23. DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	1,025	2,055
Other deposits	478,892	161,349
Other receivables	43,475	35,251
	523,392	198,655

As at 31 December 2017, other receivables mainly comprise of amount receivable for disposal of Xian Hui Investment Limited of approximately HK$7,000,000 (2016: HK$7,000,000) and of i-Century Limited of approximately HK$3,421,000 (2016: HK$3,421,000).

In view of directors of the Company, the receivable amount of disposal of subsidiaries are still recoverable.

As at 31 December 2017, included in other deposits of approximately HK$457,785,000 (2016:HK$145,000,000) was used as deposit for the incentives to participating merchants of settlement application services.

24. CASH AND BANK BALANCES

	2017 HK$'000	2016 HK$'000
Cash at bank and on hand	37,195	442,496
Cash at other financial institution	–	–
Cash and bank balances	37,195	442,496

24. CASH AND BANK BALANCES (CONTINUED)

Included in cash at bank and on hand are the following amounts denominated in a currency other than the functional currency of the Company to which they relate:

	2017 HK$'000	2016 HK$'000
Malaysian Ringgit	**69**	134
US Dollars	**1,016**	1,017
Renminbi	**97**	81

As at 31 December 2017, cash and bank balances carry interest at prevailing market saving rates from 0.01% to 0.02% (2016: 0.01% to 0.02%) per annum. Included in cash at bank and on hand of the Group, Renminbi is not a freely convertible currency. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposits.

25. SHARE CAPITAL

The following movements in the Company's authorised and issued share capital took place during the period from 1 January 2016 to 31 December 2017:

		Number of shares		Share capital	
	Notes	2017	2016	2017 HK$'000	2016 HK$'000
Authorised:					
Ordinary shares of HK$0.04 each (2016: Ordinary shares of HK$0.04 each)	(c)	**50,000,000,000**	50,000,000,000	**2,000,000**	2,000,000
Issued and fully paid:					
At beginning of the year		**2,343,729,744**	1,503,729,744	**93,749**	60,149
Issue of share upon exercise of share option	(a)	**–**	20,000,000	**–**	800
Issue of shares pursuant to the conversion of convertible notes	(b)	**400,000,000**	820,000,000	**16,000**	32,800
At end of the year		**2,743,729,744**	2,343,729,744	**109,749**	93,749

25. SHARE CAPITAL (CONTINUED)

Notes:

(a) On 21 March 2016, 20,000,000 ordinary shares of HK$0.04 each were issued in relation to share options exercised under the 2013 listing share option scheme of the Company at the exercise price of HK$0.237 for a total cash consideration of HK$4,740,000.

(b) On 21 October 2016, convertible notes was converted of the principal amount of HK$55,000,000 into 220,000,000 shares. The excess of the conversion price over the nominal value of shares, of approximately HK$58,047,000, was credited to the share premium of the Company.

On 1 November 2016, convertible notes was converted of the principal amount of HK$65,000,000 into 260,000,000 shares. The excess of the conversion price over the nominal value of shares, of approximately HK$68,643,000, was credited to the share premium of the Company.

On 8 November 2016, convertible notes was converted of the principal amount of HK$35,000,000 into 140,000,000 shares. The excess of the conversion price over the nominal value of shares, of approximately HK$36,976,000, was credited to the share premium of the Company.

On 18 November 2016, convertible notes was converted of the principal amount of HK$50,000,000 into 200,000,000 shares. The excess of the conversion price over the nominal value of shares, of approximately HK$52,852,000, was credited to the share premium of the Company.

On 17 January 2017, convertible notes was converted of the principle amount of HK$15,000,000 into 60,000,000 shares. The excess of the conversion price over the nominal value of shares of approximately HK$15,840,000 was credited to the share premium of the Company.

On 22 May 2017, convertible notes was converted of the principle amount of HK$20,000,000 into 80,000,000 shares. The excess of the conversion price over the nominal value of shares of approximately HK$21,120,000 was credited to the share premium of the Company.

On 16 June 2017, convertible notes was converted of the principle amount of HK$5,000,000 into 20,000,000 shares. The excess of the conversion price over the nominal value of shares of approximately HK$5,280,000 was credited to the share premium of the Company.

On 4 July 2017, convertible notes was converted of the principle amount of HK$20,000,000 into 80,000,000 shares. The excess of the conversion price over the nominal value of shares of approximately HK$21,120,000 was credited to the share premium of the Company.

On 9 October 2017, convertible notes was converted of the principle amount of HK$5,000,000 into 20,000,000 shares. The excess of the conversion price over the nominal value of shares of approximately HK$5,280,000 was credited to the share premium of the Company.

On 15 November 2017, convertible notes was converted of the principle amount of HK$20,000,000 into 80,000,000 shares. The excess of the conversion price over the nominal value of shares of approximately HK$21,120,000 was credited to the share premium of the Company.

On 24 November 2017, convertible notes was converted of the principle amount of HK$15,000,000 into 60,000,000 shares. The excess of the conversion price over the nominal value of shares of approximately HK$15,840,000 was credited to the share premium of the Company.

(c) Pursuant to ordinary resolution passed by the shareholders of the Company at an special general meeting on 7 September 2016, the company increase the authorised share capital of the Company from HK$90,000,000 divided into 2,250,000,000 Shares to HK$2,000,000,000 divided into 50,000,000,000 Shares by creation of an additional 47,750,000 Shares, which shall rank pari passu in all respects with the existing Shares.

26. RESERVES

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

(a) Share premium reserves

Under the Company's Bye-Laws or the laws of Bermuda, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The Company did not have distributable reserves as at 31 December 2017 (2016: Nil).

(b) Share-based compensation reserve

It represents value of employee services in respect of share options granted to directors, employees and eligible participants of the Group recognised.

(c) Capital reserve

It represents the difference between the paid-in capital/share capital and share premium of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of group reorganisation prior to its listing on The Stock Exchange of Hong Kong Limited.

27. DEFERRED TAX LIABILITIES

The following is the major deferred tax liabilities by the Group and movements thereon:

	Intangible asset HK$'000	Unrealised gain on hand for trading investment HK$'000	Convertible notes HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
As at 1 January 2016	3,402	40,324	–	89	43,815
Conversion of convertible notes	–	–	(21,188)	–	(21,188)
Charged to consolidated statement of profit or loss and other comprehensive income	(1,701)	(5,463)	40,061	–	32,897
As at 31 December 2016 and 1 January 2017	1,701	34,861	18,873	89	55,524
Conversion of convertible notes	–	–	(21,943)	–	(21,943)
Credited to consolidated statement of profit or loss and other comprehensive income	(1,701)	(34,861)	6,519	(89)	(30,132)
As at 31 December 2017	**–**	**–**	**3,449**	**–**	**3,449**

28. TRADE PAYABLES

	2017 HK$'000	2016 HK$'000
0 – 30 days	**4,161**	4,308
31 – 60 days	**4,122**	2,016
61 – 90 days	**4,122**	2,016
Over 90 days	**8,548**	29,669
	20,953	38,009

Trade payables are generally settled on 0-60 days terms. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

29. ACCRUALS AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Accruals	**5,727**	14,226
Other payables	**5,880**	11,699
	11,607	25,925

30. CONVERTIBLE NOTES

On 14 October 2016, the Company issued 2.5% coupon convertible notes ("**Convertible Notes**") with a principal amount of HK$320,000,000. Each note entitled the holder to convert to ordinary share of the Company at a conversion price of HK$0.25 per conversion share. The convertible notes are intended to be utilized for facilitating the business opportunities relation to the e-payment platform. The maturity date of the Convertible Notes is the date immediately preceding the third anniversary of the date of issue of the Convertible Notes, 14 October 2019.

The Convertible notes contain three components: redemption option derivative, liability and equity elements. The redemption option derivative is measured at fair value with changes in fair value recognised in profit or loss. The equity element is presented in equity heading "Convertible equity reserve". The effective interest rate of the liability component on initial recognition is 6.34% per annum. The valuation of convertible notes was performed by an independent qualified professional valuer not connected with the Group.

During the year 31 December 2017, the convertible note holders ("**Note holder**") has convert Convertible Notes of approximately 400,000,000 shares (2016: 820,000,000 shares).

30. CONVERTIBLE NOTES (CONTINUED)

Details of Convertible notes on initial recognition or modification to be approximately as follows:

	Convertible notes HK$'000
Liability component	**291,744**
Equity component	**448,808**
Redemption option derivative component	**(420,552)**
Nominal value of Convertible notes issued on 14 October 2016	**320,000**

The movements of the liability component, equity component and redemption option derivative of the Convertible notes during the year are set out below:

Liability component	
Convertible notes issued on 14 October 2016	291,744
Less: Direct cost	(1,890)
	289,854
Imputed interest charge	2,119
Less: Interest payable	(923)
Conversion of shares	(186,077)
As at 31 December 2016	104,973
Imputed interest charge	4,092
Less: Interest payable	(1,768)
Conversion of shares	(93,112)
As at 31 December 2017	**14,185**
Equity component	
Convertible notes issued on 14 October 2016	448,808
Less: Direct cost	(2,909)
	445,899
Conversion of shares	(285,654)
As at 31 December 2016	160,245
Conversion of shares	(139,343)
As at 31 December 2017	20,902
Redemption option derivative component	
Convertible notes issued on 14 October 2016	(420,552)
Conversion of shares	269,416
Change in fair value	(31,062)
As at 31 December 2016	(182,198)
Conversion of shares	87,087
Change in fair value	81,536
As at 31 December 2017	**(13,575)**

31. DETAILS OF NON WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below show the details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss attributable to non-controlling interests		Accumulated non-controlling interests	
		As at 31 December 2017	As at 31 December 2016	As at 31 December 2017 HK$'000	As at 31 December 2016 HK$'000	As at 31 December 2017 HK$'000	As at 31 December 2016 HK$'000
Most Ideas Limited (Note a)	Hong Kong	45%	45%	(3,835)	(4,427)	3,105	6,940
Easy Ideas Limited (Note b)	Hong Kong	26%	26%	(5,980)	(2,466)	5,978	11,958
Individual immaterial subsidiaries with non-controlling interests						9,769	1,864
						18,852	20,762

Notes:

(a) MG Interactive Limited and MG Interactive Entertainment Limited are wholly subsidiaries of Most Ideas Limited.

(b) 盈科創見科技（深圳）有限公司 and Techono Vision Limited are wholly owned subsidiaries of Easy Ideas Limited.

31. DETAILS OF NON WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

Summarised financial information in respect of each Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below presents amounts before intragroup eliminations.

Most Ideas Limited and its wholly-owned subsidiaries

	2017 HK$'000	2016 HK$'000
Non-current assets	536	10,426
Current assets	8,334	8,348
Current liabilities	(1,970)	(1,651)
Non-current liabilities	–	(1,701)
Equity attributable to owners of the Company	3,795	8,482
Non-controlling interest	3,105	6,940

	For the year ended 31 December 2017 HK$'000	For the year ended 31 December 2016 HK$'000
Revenue	9,446	8,058
Expenses	(17,968)	(17,896)
Loss for the year	(8,522)	(9,838)
Total comprehensive loss for the year	(8,522)	(9,838)
Loss and total comprehensive loss attributable to owners of the Company	(4,687)	(5,411)
Loss and total comprehensive loss attributable to the non-controlling interest	(3,835)	(4,427)
Loss and total comprehensive loss for the year	(8,522)	(9,838)

31. DETAILS OF NON WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

Most Ideas Limited and its wholly-owned subsidiaries (Continued)

	For the year ended 31 December 2017 HK$'000	For the year ended 31 December 2016 HK$'000
Net cash used in operating activities	**(1,180)**	(1,187)
Net cash used	**(1,180)**	(1,187)

Easy Ideas Limited and its wholly-owned subsidiaries

	2017 HK$'000	2016 HK$'000
Non-current assets	**24,032**	47,289
Current assets	**5,127**	3,597
Current liabilities	**(6,166)**	(4,893)
Equity attributable to owners of the Company	**17,015**	34,035
Non-controlling interests	**5,978**	11,958

	For the year ended 31 December 2017 HK$'000	For the year ended 31 December 2016 HK$'000
Revenue	**1,530**	1,968
Expenses	**(24,530)**	(11,454)
Loss for the year	**(23,000)**	(9,486)
Total comprehensive loss for the year	**(23,000)**	(9,486)
Loss and total comprehensive loss attributable to owners of the Company	**(17,020)**	(7,020)
Loss and total comprehensive loss attributable to the non-controlling interest	**(5,980)**	(2,466)
Loss and total comprehensive loss for the year	**(23,000)**	(9,486)

31. DETAILS OF NON WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

Easy Ideas Limited and its wholly-owned subsidiaries (Continued)

	For the year ended 31 December 2017 HK$'000	For the year ended 31 December 2016 HK$'000
Net cash used in operating activities	**(41)**	(53)
Net cash used	**(41)**	(53)

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Financial assets at fair value through profit or loss	**6,776**	182,122
Derivative financial assets	**13,575**	182,198
Loan and receivables (including cash and bank balances)	**127,527**	514,675
Available-for-sale financial assets	**4,678**	23,026
Financial liabilities		
Amortised cost	**32,560**	63,934
Convertible notes	**14,185**	104,973

(b) Financial risk management objective and policies

Market Risk

Price Risk

The Group's major financial instruments include financial assets at fair value through profit or loss, trade receivable, other receivables, trade payables and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group is exposed to equity price risk mainly through its investment in listed equity securities. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated in equity securities listed in Hong Kong industry sector quoted in The Stock of Exchange of Hong Kong Limited for the year ended 31 December 2017. The directors of the Company will monitor the risks and consider hedging the risk exposure should the need arise.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objective and policies (Continued)

Market Risk (Continued)

Equity price sensitivity analysis

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

If the prices had been 15% higher/lower (2016: 15% higher/lower):

- post-tax loss for the year ended 31 December 2017 would decrease/increase by HK$1,016,000 (2016: post-tax loss decrease/increase by HK$22,811,000) as a result of change in fair value of financial assets at fair value through profit or loss.

- Total comprehensive loss for the year ended 31 December 2017 would decrease/increase by HK$702,000 (2016: total comprehensive loss increase/decrease by HK$2,884,000) as a result of change in fair value of available-for-sales financial assets.

Foreign currency risk

The Group has not used any financial instruments to hedge against significant foreign currency exposure should the need arise.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong Dollars against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each of reporting period for a 5% change in foreign currency exchange rates.

The table below analyses the effect on the Group's exchange difference in the consolidated statement of profit or loss and other comprehensive income arising from the denominated monetary item in the next year should the foreign currencies exchange rate be changed.

	2017 HK$'000	2016 HK$'000
Change of exchange difference		
Change of foreign currencies exchange rate by 5%:		
– Malaysian Ringgit	**3**	7

32. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objective and policies (Continued)

Market Risk (Continued)

Foreign currency risk (Continued)

Since US$ is pegged to HK$, the Group does not expect any significant movement in HK$/US$ exchange rate and this is excluded from the sensitivity analysis above. Management considered the exposure of US$ are insignificant. Management will monitor foreign exchange exposure to mitigate the foreign currency risk.

Interest rate risk

The Group's interest rate risk mainly arises from convertible notes. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk during both year.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

Credit risk

It is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables. The Group limits its exposure to credit risk by rigorously selecting counterparties. The Group mitigates its exposure to risk relating to trade receivables by dealing with diversified customers with sound financial standing. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivables balances are monitored on an ongoing basis and overdue balances are followed up by senior management. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables, if any, estimated by the management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors believe that the credit risk is significantly reduced. The Group has a concentration of credit risk in certain individual customers. At the end of each reporting period, the five largest receivable balances accounted for 23.0% as at 31 December 2017 (2016: 34.5%) of the trade receivables and the largest trade receivable was 6.4% (2016: 8.2%) of the Group's total trade receivables. The Group seeks to minimise its risk by dealing with counterparties which have good credit history. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

In relation to the Group's deposits with bank, the Group limits its exposure to credit risk by placing deposits with financial institutions with high credit rating and no recent history of default. The directors consider that the Group's credit risk on the bank deposits is low. Management continues to monitor the position and will take appropriate action if their ratings should change. As at 31 December 2017 and 2016, the Group has no significant concentration of credit risk in relation to deposits with bank.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objective and policies (Continued)

Market Risk (Continued)

Liquidity risk

The following tables detail the Group's remaining contractual maturity for its non-derivate financial liabilities based on the agreed repayment terms as at 2017 and 2016. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Contractual undiscounted cash flow					
		Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Total carrying amount
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2017							
Non-derivative financial liabilities							
Trade payables	–	20,953	–	–	–	20,953	20,953
Accruals and other payables	–	11,607	–	–	–	11,607	11,607
Convertible notes	6.34%	–	15,000	–	–	15,000	14,185
	–	32,560	15,000	–	–	47,560	46,745
As at 31 December 2016							
Non-derivative financial liabilities							
Trade payables	–	38,009	–	–	–	38,009	38,009
Accruals and other payables	–	25,925	–	–	–	25,925	25,925
Convertible notes	6.34%	–	115,000	–	–	115,000	104,973
	–	63,934	115,000	–	–	178,934	168,907

32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value estimation

Financial instruments that are measured in the consolidated statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

– Level 1: Fair value measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: Fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3: Fair values using valuation techniques in which any significant input is not based on observable market data

Except for the liability component of convertible notes which recorded at amortised cost as below, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's statement of financial position approximate to their fair values.

	31 December 2017		31 December 2016	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Convertible notes	**14,185**	**15,423**	104,973	104,349

The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value:

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
As at 31 December 2017				
Financial assets at fair value through profit or loss:				
Listed equity securities in Hong Kong	6,776	–	–	6,776
Derivative financial instruments:				
Redemption option of convertible notes (Note)	–	–	13,575	13,575
Available-for-sales financial assets:				
Listed equity securities in Hong Kong	4,678	–	–	4,678
	11,454	–	13,575	25,029
As at 31 December 2016				
Financial assets at fair value through profit or loss:				
Listed equity securities in Hong Kong	182,122	–	–	182,122
Derivative financial instruments:				
Redemption option of convertible notes (Note)	–	–	182,198	182,198
Available-for-sales financial assets:				
Listed equity securities in Hong Kong	23,026	–	–	23,026
	205,148	–	182,198	387,346

Note: Convertible notes are measured at fair value at the end of each reporting period. Convertible notes are determined with Binomial option pricing model as valuation technique and all inputs are observable except the credit spread which should be considered as Level 3.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value estimation (Continued)

Reconciliation of Level 3 fair value measurements

As at 31 December 2017

	Derivative financial assets HK$'000	Total HK$'000
Opening balance	182,198	182,198
Total gains or losses:		
– in profit or loss	(81,536)	(81,536)
Conversion of shares	(87,087)	(87,087)
Closing balance	13,575	13,575

(d) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity balance.

The Group's overall strategy remains unchanged from 2016 to 2017.

The capital structure of the Group consists of net debts (convertible notes as details in note 30 respectively offset by cash at bank and on hand) and equity of the Group (comprising issued capital, reserves, and retained earnings as stated in consolidated statement of changes in equity).

The gearing ratio at end of the reporting period was as follows.

	2017 HK$'000	2016 HK$'000
Debt (i)	14,185	104,973
Less: Cash at bank and on hand (Note 24)	(37,195)	(442,496)
Net debt	(23,010)	(337,523)
Equity (ii)	587,683	877,215
Net debt to equity ratio	N/A	N/A

(i) Debt is defined as convertible notes as described in note 30.

(ii) Equity includes all capital and reserves of the Group that are managed as capital.

33. SUMMARY OF FINANCIAL INFORMATION OF THE COMPANY

	2017 HK$'000	2016 HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**30,928**	30,928
Derivative financial assets	**13,575**	182,198
	44,503	213,126
Current assets		
Deposits, prepayments and other receivables	**498,592**	140,807
Cash and bank balances	**24,366**	422,866
	522,958	563,673
Total assets	**567,461**	776,799
CAPITAL AND RESERVES		
Share capital	**109,749**	93,749
Reserves (Note ii)	**415,070**	533,357
Equity attribute to owners of the Company	**524,819**	627,106
LIABILITIES		
Non-current liabilities		
Convertible notes	**14,185**	104,973
Deferred tax liabilities	**3,449**	18,873
	17,634	123,846
Current liabilities		
Amounts due to subsidiaries (Note i)	**11,839**	15,446
Accruals and other payables	**13,169**	10,401
	25,008	25,847
Total liabilities	**42,642**	149,693
Total equity and liabilities	**567,461**	776,799
Net current assets	**497,950**	537,826
Total assets less current liabilities	**542,453**	750,952

The financial statements were approved and authorised for issue by the board of directors of the Company on 23 March 2018 and signed on its behalf by:

Li Jinglong
Executive Director

Zhang Ligong
Executive Director

33. SUMMARY OF FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

Note:

(i) The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(ii) Reserves of the Company:

	Share premium HK$'000	Share-based compensation reserve HK$'000	Capital reserve HK$'000	Convertible equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2016	2,502,047	4,699	8,877	–	(2,291,648)	223,975
Loss for the year	–	–	–	–	(48,245)	(48,245)
Other comprehensive loss for the year	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(48,245)	(48,245)
Grant of share option	–	2,740	–	–	–	2,740
Issues of share upon exercise of share option	6,132	(2,192)	–	–	–	3,940
Recognition of equity component of convertible notes	–	–	–	445,899	–	445,899
Issue of share upon conversion of convertible notes	190,702	–	–	(285,654)	–	(94,952)
As at 31 December 2016 and 1 January 2017	2,698,881	5,247	8,877	160,245	(2,339,893)	533,357
Loss for the year	–	–	–	–	(205,125)	(205,125)
Other comprehensive loss for the year	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(205,125)	(205,125)
Grant of share option	–	81,680	–	–	–	81,680
Lapse of share option	–	(4,507)	–	–	4,507	–
Issue of share upon conversion of convertible notes	129,368	–	–	(139,343)	15,133	5,158
As at 31 December 2017	2,828,249	82,420	8,877	20,902	(2,525,378)	415,070

34. OPERATING LEASE ARRANGEMENTS

The Group entered into commercial leases on certain warehouses. Leases are generally negotiated for a term of two years. Rentals are fixed at the date of signing of lease agreement. At the end the year ended date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follow:

	2017 HK$'000	2016 HK$'000
Within one year	**2,090**	2,242
Within two to five years	**137**	745
	2,227	2,987

35. SHARE-BASED COMPENSATION RESERVE

	2017 HK$'000	2016 HK$'000
As at the beginning of the year	**5,247**	4,699
Exercise/cancellation/lapse of share options	**(4,507)**	(2,192)
Grant of share options	**81,680**	2,740
As at the end of the year	**82,420**	5,247

(a) A post listing share option scheme (the "**Post Listing Scheme**") was adopted by the Company on 16 October 2008 and 28 June 2013. The terms of the Post Listing Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

During the year ended 31 December 2010, the Company granted 7,760,000 share options to 3 staff (including 3 executive directors and 4 non-executive directors) pursuant to the Post Listing Scheme at an exercise price of HK$8.21 per share. Amongst these, 2,760,000 share options were granted subject to the condition that the relevant staff agreeing to surrender the outstanding options exercisable into the same number of shares which were granted to him or her under the Share Options Scheme for cancellation. There is no vesting period for the 2,760,000 share options with exercise period ending on 28 March 2017. The remaining 5,000,000 share options with exercise period ending on 28 April 2020 are subject to a one year vesting period.

During the year ended 31 December 2017, the Company granted 400,690,000 (2016: 25,000,000) share options to eligible participants and no share option was exercised (2016: 20,000,000).

All options are to be settled in cash. Staff who had resigned from the Group would forfeit their respective granted share options.

35. SHARE-BASED COMPENSATION RESERVE (CONTINUED)

(b) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Posting Listing Scheme			
	2017		2016	
	Weighted average exercise price per share	Number of options	Weighted average exercise price per share	Number of options
Outstanding as at the beginning of the year	HK$1.74	5,316,295	HK$25.44	316,295
Lapse of share options	HK$25.44	(303,382)	–	–
Grant of share options	HK$0.34	400,690,000	HK$0.237	25,000,000
Exercise of share options	–	–	HK$0.237	(20,000,000)
Outstanding as at the end of the year	HK$0.34	405,702,913	HK$1.74	5,316,295

As at 31 December 2017, 405,702,913 (2016: 5,316,295) share options were outstanding with a weighted average exercise price of HK$0.34 (2016: HK$1.74) under the Post Listing Scheme.

Note: Pursuant to the terms of the Post Listing Scheme adopted on 16 October 2008, the exercise price of the share options granted and the number of shares to be allotted and issued upon exercise in full of the subscription rights attaching to the outstanding share options have adjusted to HK$25.44 and 316,295 respectively, with effect from 25 August 2015, as a result of the share consideration and open offer of ordinary share of the Company.

	Date of grant	Exercised price HK$	Number of share option outstanding at 1 January	Granted during the year	Exercise during the year	Lapsed during the year	Cancelled during the year	Number of share options outstanding at 31 December
2017								
Other employees in aggregate	16 October 2008	25.44	316,295	–	–	(303,382)	–	12,913
			316,295	–	–	(303,382)	–	12,913
Eligible participants	28 June 2013	0.237	5,000,000	–	–	–	–	5,000,000
	1 June 2017	0.57	–	152,320,000	–	–	–	152,320,000
	28 July 2017	0.199	–	248,370,000	–	–	–	248,370,000
			5,000,000	400,690,000	–	–	–	405,690,000
			5,316,295	400,690,000	–	–	–	405,702,913
Weighted average exercise price			1.74	0.34	–	25.44	–	0.34

35. SHARE-BASED COMPENSATION RESERVE (CONTINUED)

(b) (Continued)

	Date of grant	Exercised price HK$	Number of share option outstanding at 1 January	Granted during the year	Exercise during the year	Lapsed during the year	Cancelled during the year	Number of share options outstanding at 31 December
2016								
Other employees in aggregate	16 October 2008	25.44	316,295	–	–	–	–	316,295
			316,295	–	–	–	–	316,295
Eligible participants	28 June 2013	0.237	–	25,000,000	(20,000,000)	–	–	5,000,000
			–	25,000,000	(20,000,000)	–	–	5,000,000
			316,295	25,000,000	(20,000,000)	–	–	5,316,295
Weighted average exercise price			25.44	0.237	0.237	–	–	1.74

(c) As at 31 December 2017 and 2016, outstanding share options have the following remaining contractual lives and exercise prices:

	2017		2016	
Exercise price	**Remaining contractual life**	**Number of options**	Remaining contractual life	Number of options
Posting Listing Scheme HK$0.34	**9.5 years**	**405,702,913**	3.3 years	5,316,295

(d) According to the Black-Scholes Options Pricing Model, the values and adjusted values of the options granted are as follows:

Date of grant	**29 April 2016**	**1 June 2017**	**28 July 2017**
Option value	HK$0.13	HK$0.34	HK$0.12
Variables:			
– Exercise price (adjusted)	HK$0.237	HK$0.57	HK$0.199
– Closing price at date of grant	HK$0.237	HK$0.57	HK$0.199
– Risk free rate	1.47%	1.31%	1.52%
– Expected volatility (Note (i))	89%	79%	99%
– Expiration of the option	25 January 2019	31 May 2027	27 July 2027
– Option life (expected weighted average life)	3 years	10 years	10 years
– Expected ordinary dividends	–	–	–

35. SHARE-BASED COMPENSATION RESERVE (CONTINUED)

(d) (Continued)

(i) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily prices over the one year immediately preceding the grant date.

(ii) The above calculation is based on the assumption that there is no material difference between the expected volatile over the whole life of the options and the historical volatility of the shares in AIM set out as above.

36. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group had the following significant related party transactions:

	2017 **HK$'000**	2016 HK$'000
Salaries and bonus	**1,030**	1,060

37. 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 flow were, or future cashflows will be classified in the Group's consolidated statement of cash flows from financing activities.

	Convertible notes HK$'000	**Total** HK$'000
At 1 January 2017	104,973	104,973
Non cash items:		
Accrued interest	(1,768)	(1,768)
Interest expense	4,092	4,092
Conversion of shares (Note 30)	(93,112)	(93,112)
	14,185	14,185

38. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENT

The consolidated financial statements were approved and authorized for issue by the board of directors on 23 March 2018.

SHAREHOLDER ENQUIRIES AND COMMUNICATIONS

Any enquiries relating to your shareholding, for example transfers of shares, change of name or address, loss of share certificates or dividend cheques, should be sent to the Registrars:

Principal share registrar in Bermuda
MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

Hong Kong branch share registrar
Tricor Investor Services Limited
Level 54,
Hopewell Centre,
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS

Enquiries relating to the Company's strategy or operations may be directed to:

Address: Room 626-629, Corporation Park, 11 On Lai Street, Siu Lek Yuen, Sha Tin, New Territories, Hong Kong
Email: ir@rcg.tw

WHERE MORE INFORMATION ABOUT THE COMPANY IS AVAILABLE

This annual report 2017, and other information on the company, may be reviewed on the website: www.rcg.tw and investor relations webpage: www.rcg.todayir.com

Corporate Information

DIRECTORS

Executive Directors:

Mr. Li Jinglong
Mr. Zhang Ligong
Mr. Wang Zhongling *(Chief Executive Officer)*

Independent Non-executive Directors:

Mr. Cheng Ruixiong
Mr. Kwan King Wah
Ms. Lo Suet Lai

COMPANY SECRETARY

Mr. Cheung Chi Lok

REGISTERED OFFICE

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Malaysia

Glossary of Technical Terms

"application"	a functional system made up of software or hardware, or a combination of both, that performs a specific task;
"biometrics"	the identification of a unique, measurable characteristic of a human being. This may be a physical or behavioural characteristic. Common types of biometric technologies include fingerprint recognition, iris scan, facial recognition, vein recognition, hand geometry recognition and voice recognition;
"device"	a machine or tool for a particular purpose;
"EL-1000"	a controller with advance features to manage door access, time attendance and security alarm, a product of the Group;
"facial recognition"	identification of individuals through the analysis of facial features;
"fingerprint authentication"	verification of individuals through the analysis of fingerprint;
"FL-1000"	a industrial controller for access control, a product of the Group;
"hardware"	a comprehensive term for all of the physical parts of a computer, as distinguished from the data it contains or operates on and the software that provides instructions for the hardware to accomplish tasks;
"i-series"	a product family of access control devices using fingerprint recognition and high speed processor, products of the Group;
"i4F"	fingerprint access control with high compatibility with XL-1000, a product of the Group;
"IT"	"Information Technology", anything related to computing technology, such as networking, hardware, software, the Internet, or the people that work with these technologies;
"K-series"	a product family of multi-modal biometrics security devices for access control and customer relationship management combining fingerprint authentication, facial recognition, RFID and password authentications, products of the Group;

Glossary of Technical Terms

"m-series"	a product family of fingerprint recognition door lock security system, products of the Group;
"Mifare"	a series of chips widely used in contactless smart cards and proximity cards;
"r-series"	a product family of RFID readers developed by the Group, products of the Group;
"RFID"	"Radio Frequency Identification", a technology for data acquisition by way of radio frequency between transponders and a host system;
"s-series"	a product family of slim fingerprint recognition access control devices deploying capacitive sensor, products of the Group;
"sensor"	any device that receives a signal or stimulus and responds to it in a distinctive manner;
"software"	a system or utility or application programme expressed in a computer readable language; and
"XL-1000"	a controller to manage door access, time attendance and security alarm, a product of the Group.

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* *For purpose of identification only*