Smartac
中國智能

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

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 395)

Annual Report
2018

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Yang Xin Min *(Chairman)*
Mr. Yang Zhen
Mr. Kwan Che Hang Jason (resigned on 1 June 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheng Faat Ting Gary
Mr. Poon Lai Yin Michael
Mr. Yang Wei Qing (resigned on 14 November 2018)
Mr. Peng Bobo (appointed on 27 December 2018)

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Yeung Wai Ling, HKICPA

AUDITOR

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

PRINCIPAL BANKERS

OCBC Wing Hang Bank Limited
Bank of Jiangsu
Bank of Suzhou
China Construction Bank (Asia)
China Merchants Bank

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1204, 12th Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong
Tel: (852) 2123 9986
Fax: (852) 2530 1699
Website: http://www.smartacgroup.com
Email: investors@smartacgroup.com

REGISTERED OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

LEGAL ADVISORS

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

PRINCIPAL SHARE REGISTRAR

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 395

Five-Year Financial Summary

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000 (Restated)
Revenue	**17,356**	15,693	24,319	33,559	46,684
Loss for the year	**(62,414)**	(5,666)	(157,898)	(143,309)	(156,971)
EBIT	**(63,802)**	(134)	(158,294)	(139,009)	(146,015)
EBITDA	**(55,222)**	14,407	(125,269)	(82,718)	(107,012)
(Loss)/earnings per share — basic (RMB)	**(0.0117)**	0.0033	(0.0366)	(0.0409)	(0.0103)
(Loss)/earnings per share — diluted (RMB)	**(0.0117)**	0.0033	(0.0366)	(0.0409)	(0.0103)
Ordinary shares (shares)	**5,635,970,924**	4,762,033,424	4,762,033,424	3,968,361,424	3,366,947,850
Cash and cash equivalents (including pledged bank deposits)	**252,459**	20,551	100,545	95,515	93,119
Total assets	**377,323**	246,080	248,061	292,751	538,553
Net asset value	**317,060**	150,480	137,487	221,356	271,031
Net asset value per share (RMB)	**0.06**	0.03	0.03	0.06	0.08

Chairman's Statement

Dear Valued Shareholders

On behalf of the Board of Directors (the "**Board**") of Smartac Group China Holdings Limited (the "**Company**") and together with its subsidiaries, the "**Group**", I herein present the annual results of the Group for the year ended 31 December 2018 ("**FY2018**").

For E-commerce solutions segment, this segment began to contribute results to the Group in FY2018 upon acquisition completed on 28 December 2017. The main services were to build and operate single and multi-brand e-commerce platforms and flagship stores on multiple online channels such as Tmall, Taobao, JD.com, brand official website and self-built platform and provide end-to-end e-commerce solutions that were tailored to meet clients' unique need. Amid the shift in consumer behaviour and market landscape from traditional e-commerce platforms to other new social media e-commerce platforms, the segment recorded a net loss for FY2018 mainly resulted from reduced investment in brand promotion by brand partners on the traditional e-commerce platforms which the Group provides services to clients in FY2018.

E-commerce market of the People's Republic of China ("**PRC**") has increased focus on social media e-commerce platforms which enables customers to create richer consumer experiences. In the PRC, consumers use social media to discover new brands and products, validate the product quality through reviews, comments and feedback, purchase directly through a social channel and then write a review of the product or experience. Social media e-commerce platforms such as Pinduoduo and WeChat, have captured increasing attention in the PRC's market to make purchases and share post-purchase experiences.

In the view of increasing market attention and high growth on social media e-commerce platforms in the PRC, apart from working with traditional e-commerce platforms such as Tmall, Taobao and JD.com, the Group would increase resources to develop self-built platforms, brand official website malls and WeChat official accounts that will enable collection of data about customers' consumption pattern and preferences so as to better adjust product assortment and carry out more precise marketing and promotional activities for brand partners. The Group also started to partner with different e-commerce channels to increase branded product exposure and liaise with suppliers for improvement on supply chain in order to provide timely and quality-assured delivery for enhancing consumer shopping experiences, drive sales and improve profit margin.

For integrated digital marketing ("**IDM**") solutions segment, the Group mainly continued to engage in WeChat Pay business in Hong Kong during FY2018 through a subsidiary, Haihai Travel Cloud Limited ("**Haihai**"). In FY2018, Haihai was awarded WeChat Pay's Excellent Service Award 2018 award for its dedication to offer quality services to merchants. Riding with the support of the People's Bank of China and the Hong Kong Monetary Authority, a rapid development of the mobile payment industry was anticipated in FY2018. Although the revenue of WeChat Pay business had been increased by 68% in FY2018, many service providers in the mobile payment industry have been racing in the competition at a low rate in order to seize the merchants. In order to create more comprehensive services to merchants, increase merchants' loyalty and make differentiation among other players, apart from purely serving merchants with WeChat Pay payment as a mobile payment collection tool, we have planned to focus on the significance in data collection, precise marketing and promotion through WeChat Pay payment services in the coming years. For Online to Offline ("**O2O**") solutions segment, during the year under review, segment revenue for the FY2018 dropped by 70.8% largely because of decrease in customer demand on social customer relationship management services and O2O marketing under PRC's economy slowdown.

In December 2018, the Company completed the placing of 812,500,000 ordinary shares which generated a net proceed of approximately RMB226,926,000 (equivalent to approximately HK$257,380,000, after deducting relevant expenses incurred in relation to the placing), which was mainly used as general working capital for existing business and for investment of new business in the upstream and downstream of the Group's principal business if opportunities arise. The placing proceeds would further strengthen the Group's capital structure for future challenges.

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

Yours Faithfully

Yang Xin Min
Chairman

28 March 2019

BUSINESS REVIEW

The Company is an investment holding company, through its subsidiaries, providing (i) software sales and O2O consultation services by O2O solutions segment; (ii) digital advertising platform and related solutions by IDM solutions segment and (iii) marketing strategy and management of operation of online shop on e-commerce platform by E-commerce solutions segment which started to contribute financial results to the Group for FY2018.

(i) O2O solutions segment

O2O solutions segment provided tailormade social customer relationship management ("**CRM**") platforms and IT solutions service for retail sectors and maintenance service to our clients. The use of big data in the social CRM platforms assist clients in understanding consumers' behavior and personalising customers' experience which make targeted promotion and marketing activities possible for clients. Segment revenue in FY2018 dropped by 70.8% to approximately RMB3,900,000 mainly because of less revenue recognised in FY2018 upon the completion of certain prior year contracts during the current year and drop in customer demand on social CRM services and O2O marketing solutions under PRC's economy slowdown.

(ii) IDM solutions segment

IDM solutions segment provided digital advertisements and promotion articles for customers through WeChat official account in Shanghai and WeChat Pay payment service in Hong Kong. In January 2018, the Group terminated its cooperative agreement with Tianjin China Resources Vanguard Limited due to uncertainty of income stream. During FY2018, the Group through its subsidiary, Haihai continued to assist merchants with WeChat Pay payment access, settlement and marketing campaigns that WeChat Pay offered. As at 31 December 2018, Haihai had been working with about 1,100 merchants who engaged in retailing businesses such as medical and pharmaceutical services, cosmetics and beauty, jewellery, apparel, food and beverage, so as to offer customers a more convenient and fast mobile payment option when making both online and offline purchase. Segment revenue in FY2018 recorded 9.5% decrease to approximately RMB2,113,000 mainly due to the drop of revenue from digital advertisements and promotion articles of approximately RMB1,042,000 partially offset with the increase of commission income and related sales contributed by WeChat Pay business of approximately RMB764,000. In order to build up our competitive advantages and customer loyalty, Haihai is preparing to provide our merchants with value added services though launching WeChat official account enabling a number of functions including conversion of consumption points earned from purchases to coupons and marketing and promotional activities and planning to develop more social media functions on WeChat official account.

(iii) E-commerce solutions segment

The Group started to engage in E-commerce solutions business through the completion of acquisition of LCE Group Limited ("**LCE Group**") since 28 December 2017. This segment began to contribute results to the Group in FY2018. During FY2018, the main services were to build and operate single and multi-brand e-commerce platforms and flagship stores on multiple online channels for clients and provide end-to-end e-commerce solutions that were tailored to meet clients' unique need. Segment revenue of approximately RMB11,343,000 for FY2018 mainly consisted of commission income of approximately RMB8,936,000 calculated (i) based on a percentage of the gross merchandise value recorded in the online stores operated by the Group and (ii) at fixed amount for running the online sales operations and sales of merchandises through its own online shops and platform of approximately RMB2,407,000.

On 25 June 2018, the Company issued consideration shares of 61,437,500 ordinary shares to the vendor following the satisfaction of profit guarantee of LCE Group for the year ended 31 December 2017 pursuant to the terms of the sale and purchase agreement dated 10 October 2017.

However, LCE Group recorded less than satisfactory result in FY2018 and could not meet the profits target for the year ended 31 December 2018. This was mainly attributable to the shift in consumer behaviour and market landscape from traditional e-commerce platforms such as T-mall, Taobao and JD.com which were the major platforms that LCE Group provided services to its clients in FY2018 to other new social media e-commerce platforms such as Pinduoduo and WeChat platforms, the consumers decreased in visiting those traditional e-commerce platforms leading the agency customers and the brands tended to decrease the input in the traditional e-commerce platforms and channels with LCE Group. In the light of the above, the 5-year cash flow forecast of LCE Group was adjusted downwards and an impairment loss on goodwill of RMB48,432,000 was recognised in FY2018 to reduce the carrying amount of the cash-generating unit ("**CGU**") to its recoverable amount.

In the view that the growth generated from traditional e-commerce platforms such as Tmall, Taobao and JD.com would become mature in the coming years, the Group would increase resources to develop self-built platforms, brand official website malls and explore more social media e-commerce channels such as Pinduoduo and WeChat platforms to increase the revenue stream.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Financial risk

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

Manpower and retention risk

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

Risk of rapid technological change

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

Risk of change in economy, politics and government policies

Most assets of the Group were located in the PRC and approximately 87% of the income was from the business in the PRC in 2018. Therefore, the operating results, financial status and prospects of the Group are influenced by the changes in economy, politics and government policies in the PRC. Hence, the Company will reinforce the communications with business partners, enhance the innovation on technology, strengthen the aftersales maintenance market, consolidate and ensure stable and healthy development of the PRC market.

Risk of data loss or operation interruption

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

FINANCIAL REVIEW

Revenue

The Group recorded an increase in revenue by 10.6 % to approximately RMB17,356,000 in FY2018.

The increment was mainly contributed by the combining effect of (i) sales of merchandises and commission income contributed by E-commerce solutions segment upon acquisition since 28 December 2017; (ii) increase in commission income from WeChat Pay payment business; (iii) decrease in sales of hardware and software, installation, maintenance service and IT support service by O2O solutions segment; and (iv) decrease in other service income by IDM solutions segment.

Cost of sales

Cost of sales mainly included cost of merchandises sold under E-commerce solutions segment.

Hardware, telecom and direct operation costs

Hardware, telecom and direct operation costs consisted of hardware cost, software cost, installation cost, telecom operation cost and other direct costs. The amount dropped by 69.7% to approximately RMB2,483,000 in FY2018 mainly due to the decrease in hardware and software cost for O2O solutions segment and decline in operation cost for IDM solutions segment upon the termination of Wi-Fi operations for the year ended 31 December 2017 ("**FY2017**").

Fair value gain of contingent shares payables

Fair value gain of contingent shares payables of RMB21,359,000 was recognised in FY2018. Since LCE Group did not meet the profits target for FY2018 and it would be expected that the profits target for the year ending 31 December 2019 would not be met, the fair value of the consideration shares payables was considered to be insignificant and thus a fair value gain was recognised.

Employee benefits expenses

Employee benefits expenses in FY2018 recorded an increase of 18.1% to approximately RMB22,165,000 mainly attributable to the headcounts contributed by E-commerce solutions segment which were partially offset with the decrease in headcounts of O2O solutions segment and IDM solutions segment.

Impairment loss on other receivables

Impairment loss on other receivables in FY2018 represented the impairment loss recognised for the other receivables arising from value added tax generated from previous purchases of Wi-Fi equipment of IDM solutions segment.

Other operating expenses

Other operating expenses mainly represented auditor's remuneration, legal and professional fee, business development costs, office rental expenses, travelling expenses and other office expenses. The amount in FY2018 dropped by 41.7% to approximately RMB14,715,000 mainly because of decrease in other operating expenses incurred for O2O solutions segment and IDM solutions segment.

Amortisation of intangible assets

Amortisation of intangible assets in FY2018 decreased by 44.8% to approximately RMB6,705,000. The amount in FY2018 solely represented the amortisation arising from an intangible asset of E-commerce solutions segment (i.e. customer relationship) while the amount in FY2017 solely represented amortisation arising from internally generated software in O2O solutions segment which was fully impaired in FY2017.

Impairment loss on goodwill

Impairment loss on goodwill in FY2018 was recognised because the recoverable amount of the CGU of E-commerce solutions segment was below the carrying amount of the CGU while the amount in FY2017 solely related to the impairment loss of goodwill arising from the software development CGU within O2O solutions segment.

Provision for capital gain tax

Provision for capital gain tax of RMB566,000 was made during FY2018 for 61,437,500 consideration shares issued to the vendor upon the satisfaction of profit guarantee of LCE Group for the year ended 31 December 2017 according to Public Notice [2015] No. 7 ("**Public Notice No. 7**") and Public Notice [2017] No. 37 issued by the State Administration of Taxation ("**SAT**").

Income tax credit/(expense)

Income tax credit in FY2018 mainly represented deferred tax credit arising from amortisation of the intangible asset of E-commerce solutions segment. Income tax expense in FY2017 mainly comprised of deferred tax expense due to the change of enterprise income tax rate of one of the Group's subsidiaries operating in Suzhou to 25% upon expiry of the concession at preferential rate of 15%.

Loss for the year

Loss for the year increased from RMB5,666,000 in FY2017 to RMB62,414,000 in FY2018. However, the adjusted loss of the Group in FY2018 would record a significant decrease compared with that in FY2017 if the non-operating items (such as impairment loss on goodwill, impairment loss on other receivables, fair value gain of contingent shares payables, write back of other payables and reversal of provision for onerous contracts) were excluded.

OUTLOOK

Looking forward, the Group will continue its effort to strengthen the cooperation with brand partners and increase resources to provide customers with value-added services through developing social media e-commerce platforms in order to enhance customer loyalty and widen customer base. The Group will also commit to seek new distribution/supplier channels in order to improve the supply chain and profitability. The Group, from time to time, strives for strategic investment and business opportunities that could maximise returns for shareholders and achieve profitable growth in the long term.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

For details, please refer to the section headed "Environmental, Social and Governance Report" on pages 35 to 37 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's business is mainly operated by its subsidiaries in Hong Kong and the PRC. The Company was incorporated in the Cayman Islands and is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Group accordingly shall comply with relevant laws and regulations in the operating regions. During the year ended 31 December 2018 and up to the date of this annual report, as far as the Company is aware, there was no material breach or noncompliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group. The Group will seek for professional legal opinions from legal advisors when necessary to ensure that the Group's transactions and business are in conformity with all applicable laws and regulations.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that employees are the valuable assets and regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees. During the year, there was no dispute on salary payments and all accrued remunerations, in all kinds, were settled on or before their respective due dates, as stipulated under individual employee's employment contract. The Group also ensures that all the employees are reasonably remunerated by regular review and the policies on salary increment, promotion, bonus, allowances and all other related benefits are updated from time to time. Being people-oriented, the Group is committed to provide a safe and healthy workplace for its employees and encourage them to have a work-life balance. For details of employment and labour practices, please refer to the section headed "Environmental, Social and Governance Report" on pages 37 to 38 of this annual report.

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

During the financial year ended 31 December 2018, there is no circumstance of any event between the Group and its employees, customers and suppliers which will have a significant impact on the Group's business and on which the Group's success depends.

CAPITAL EXPENDITURES

The capital expenditures for the year ended 31 December 2018 and 2017 were approximately RMB114,000 and RMB1,081,000, respectively. The capital expenditures for FY2018 represented additions of property, plant and equipment for O2O solutions segment, IDM solutions segment and E-commerce solutions segment while it represented additions of construction in progress and property, plant and equipment for O2O solutions segment and IDM solutions segment in FY2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group's bank and cash balances were approximately RMB252,459,000 (31 December 2017: approximately RMB20,532,000) and bank loans were RMB9,000,000 (31 December 2017: approximately RMB10,500,000). All bank loans were denominated in Renminbi and repayable within one year. Bank loans of RMB2,000,000 (31 December 2017: RMB2,500,000) and RMB7,000,000 (31 December 2017: RMB8,000,000) were arranged at fixed interest rates and floating interest rates respectively. The bank loans were secured by charge over the land, building, investment properties and personal guarantee provided by a director of subsidiaries of the Company.

The Company had completed the placing of 812,500,000 ordinary shares on 12 December 2018 which generated a net proceed of approximately RMB226,926,000 (equivalent to approximately HK$257,380,000, after deducting relevant expenses incurred in relation to the placing), which was mainly used as general working capital for existing business and for investment of new business in the upstream and downstream of the Group's principal business if opportunities arise.

As at 31 December 2018, the aforesaid net proceed uses which are consistent with the intended use of proceeds has been applied as follows:

		Intended use of proceeds HK$'000	Utilised amount of proceeds HK$'000	Unutilised amount of proceeds HK$'000
(i)	General working capital for existing business	257,380	3,261	254,119
(ii)	Investment of new business in the upstream and downstream of the Group's principal business	(for both (i) and (ii))	Nil	(for both (i) and (ii))
Total		257,380	3,261	254,119

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all capital and reserves attributable to the owners of the Company. As at 31 December 2018, the debt-to-adjusted capital ratio was not applicable since the cash and cash equivalents was over total debts (31 December 2017: 20.44%). It is the Group's strategy to keep the debt-to-adjusted capital ratio as low as feasible.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 8 June 2018, Smartac Solutions (Suzhou) Limited, a non-wholly owned subsidiary of the Company, as the vendor entered into a conditional sale and purchase agreement with the purchasers, to dispose of its 2.1803% equity interest in 上海荷特寶配餐服務有限公司, which engaged in restaurants and catering business, for a cash consideration of RMB2,800,000 (the "**Disposal**"). 上海荷特寶配餐服務有限公司 is not a subsidiary of the Company and the Disposal was completed on 6 August 2018.

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

UPDATE ON ACQUIRED BUSINESS

As mentioned in the business review, an impairment loss on goodwill of RMB48,432,000 was recognised in FY2018 for E-commerce solutions segment. The recoverable amount of the CGU of E-commerce solutions segment has determined based on a value-in-use ("**VIU**") calculation. The key assumptions used in the VIU calculation for impairment assessment based on a valuation prepared by an independent valuer are those regarding the expected average revenue growth rate, expected average profit margin and discount rate for the next five years:

— Expected average revenue growth rate and expected average profit margin for the next five years were based on past practices and management's expectations on market development; and

— Discount rate was estimated using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU.

The key assumptions used in the impairment assessment in FY2018 changed from that of FY2017:

— In 2018, the expected average revenue growth rate estimated for the next five years was 19.0%. In 2017, the expected average revenue growth rate estimated for the next five years was 27.3%; and

— In 2018, the expected average net profit margin estimated for the next five years was 21.4%. In 2017, the expected average net profit margin estimated for the next five years was 41.5%.

The valuation method of discounted cash flow was adopted for the calculation of the VIU of the CGU. In accordance with International Accounting Standard 36 Impairment of Assets, the recoverable amount should be the higher of (i) the fair value less costs of disposal, and (ii) the VIU. After assessing both the VIU and the fair value, the valuation opted for the VIU because it was the higher between the two figures. VIU is based on the estimated future cash flows expected to be derived from the CGU 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 CGU. There is no change to the valuation method adopted in FY2017 and FY2018.

SHARE CAPITAL STRUCTURE

On 25 June 2018, the Company issued consideration shares of 61,437,500 ordinary shares to vendor as part of the consideration of the acquisition of 51% equity interest in LCE Group following the satisfaction of the profits target for the year ended 31 December 2017 pursuant to the terms of the sale and purchase agreement dated 10 October 2017.

On 12 December 2018, the Company issued 812,500,000 ordinary shares of HK$0.05 each at placing price of HK$0.32 per share pursuant to the placing agreement dated 26 November 2018 to not less than six placees. The net proceed was approximately RMB226,926,000 (equivalent to approximately HK$257,380,000, after deducting relevant expenses incurred in relation to the placing). The aggregate nominal value of the placing shares was approximately RMB35,818,000 (equivalent to approximately HK$40,625,000) and the net price to the Company per placing share was HK$0.317. The market price per placing share as at 26 November 2018, being the date on which the terms of the issue were fixed, was HK$0.395. The reason of making the issue was to provide a good opportunity to raise additional funds to strengthen the financial position of the Company so as to facilitate its future development. The use of the proceeds was mainly used as general working capital for existing business and for investment of new business in the upstream and downstream of the Group's principal business if opportunities arise.

During the two years ended 31 December 2017 and 2018, no options were granted or exercised. As at 31 December 2018, the total issued share capital of the Company was approximately RMB252,439,000 (approximately equivalent to HK$281,798,000) divided into 5,635,970,924 ordinary shares with a par value of HK$0.05 each.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

The Company acquired 51% equity interests in LCE Group from the vendor (a BVI company) in FY2017. This transaction is regarded as indirect transfer of the PRC subsidiaries of LCE Group by non-tax residents and fall within the scope as described in the Public Notice No. 7 issued by the SAT.

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

As at 31 December 2017, the Group has paid HK$70,000,000 (equivalent to RMB58,358,000) to the vendor. On 25 June 2018, consideration shares of RMB5,414,000 (equivalent to HK$6,541,000) was granted to the vendor as the consideration for the acquisition of LCE Group. Neither the Group nor the vendor has reported the share transfer transaction or has settled the EIT to the PRC tax authorities upon consideration being partially settled according to the sale and purchase agreement. The directors, after consulting the Group's PRC legal counsel, were of opinion that a provision of RMB5,581,000 calculated based on the cash consideration paid to the vendor as of 31 December 2017 and further provision of RMB566,000 was made regarding the shares granted during 2018. They also considered that the risk of having a penalty imposed by the PRC tax authorities was reasonably low.

Apart from the above, the Group has no other material contingent liabilities as at 31 December 2018.

PLEDGED ASSETS

As at 31 December 2018, the following assets of the Group were pledged as securities, among others, for the banking facilities granted by its bankers:

(i) Charge over the building with carrying amount of approximately RMB5,248,000 (31 December 2017: approximately RMB5,646,000);

(ii) Charge over the prepaid land lease payments with carrying amount of approximately RMB2,062,000 (31 December 2017: approximately RMB2,118,000); and

(iii) Charge over the investment properties with fair value of approximately RMB55,800,000 (31 December 2017: approximately RMB56,600,000).

HUMAN RESOURCES

As at 31 December 2018, the Group had a total of approximately 93 employees (As at 31 December 2017: approximately 71 employees). Employee benefits expenses (including directors' emoluments) for the year were approximately RMB23,790,000 (2017: approximately RMB23,787,000). Employees were remunerated based on their performance, experience and prevailing industry practice. Bonuses and rewards might also be awarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis. The Remuneration Committee of the Company's Board is responsible for overseeing and reviewing the remuneration packages of the directors and senior management.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Saved as disclosed in note 43 and note 44 to the consolidated financial statements, the Group had not executed any agreement in respect of material investments or capital assets and did not have any other future plans relating to material investments or capital assets as at the date of this annual report.

EXECUTIVE DIRECTORS

Mr. Yang Xin Min, aged 69, senior economist, is the founding chairman, chief executive officer and substantial shareholder of the Company. Mr. Yang graduated from the Beijing Economics Correspondence College. Since August 1977, Mr. Yang has been the general manager of all predecessor entities of the Group. Mr. Yang has over 30 years' experience in the research, production management and international market development of zirconium chemicals. Mr. Yang is responsible for the formulation of the Group's overall business strategies and overseeing the daily operations of the Group. Mr. Yang is the father of Mr. Yang Zhen who is the executive director of the Company.

Mr. Yang Zhen, aged 42, is currently the president of the Hong Kong Association of Yixing and the vice president of Yixing Young Entrepreneurs Association. Mr. Yang graduated from Nanjing University with a bachelor degree in international trade and obtained EMBA degree at the Cheung Kong Graduate School of Business. Mr. Yang had served as a director of Century Dragon Investment Limited (an indirect wholly owned subsidiary of the Company until 18 December 2015) from 9 August 2000 until 18 December 2015. Mr. Yang is also appointed as the business development director of the Company since 1 September 2014. He is responsible for the promotion of wireless network, O2O systems and solutions for the wireless system installation and software development. Mr. Yang is the son of Mr. Yang Xin Min who is the chairman, chief executive officer and substantial shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheng Faat Ting Gary, aged 51, was appointed as an independent non-executive director of the Company in November 2001. He is the chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Dr. Cheng is currently an independent non-executive director of Niche-Tech Group Limited (stock code: 8490) since May 2018. In 2011, Dr. Cheng graduated with a Doctor of Business Administration from the City University of Hong Kong with research area in "Independent Non-Executive Director ("**INED**") and Corporate Governance". He is one of few practicing CPA in Hong Kong with DBA degree of research area concentrated in INED study. Dr. Cheng is a Fellow Certified Public Accountant in both Hong Kong and the United States of America ("**USA**") and a Certified Tax Advisor of the Taxation Institute of Hong Kong. Dr. Cheng received his Bachelor's degree in Accounting (Honours) and Master's degree of Business Administration from Southern Illinois University, USA, in 1992 and 1994 respectively. Dr. Cheng had worked at the audit division of the international accounting firm, PricewaterhouseCoopers, and has over 24 years of experience in financial reporting, business advisory, auditing, accounting, tax investigation and liquidation. Dr. Cheng is currently the managing director of Gary Cheng CPA Limited. For public services, Dr. Cheng currently serves as chairman of CityU Eminence Society, charter president of the Lion Club of Huaxia Hong Kong and committee member of Social Welfare Advisory Committee of HKSAR.

Mr. Poon Lai Yin, Michael, aged 47, was appointed as an independent non-executive director of the Company in January 2010. Mr. Poon had acted as the chief financial officer in two companies listed on the GEM of the Stock Exchange since 2002, and was mainly responsible for the overall financial management, internal control function and accounting function. Mr. Poon has over 20 years of experience in financial reporting, business advisory, auditing, taxation, accounting, merger and acquisition. Mr. Poon is a fellow member of Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a practicing member of Asset Management Association of China. He holds a Bachelor's degree in Administrative Studies with York University in Canada and a Master's degree in Practicing Accounting with Monash University in Australia. Mr. Poon had been working for an international accounting firm and was responsible for providing business advisory and assurance services for some listed clients. Mr. Poon is currently an independent non-executive director of China Uptown Group Company Limited (stock code: 2330) since November 2006, an independent non-executive director of a Singapore listed company, CityNeon Holdings Limited (stock code: 5HJ) since August 2017 and an independent non-executive director of Teamway International Group Holdings Limited (stock code: 1239) since March 2019. Mr. Poon is also an executive director and the chief financial officer of Huakang Biomedical Holdings Company Limited (stock code: 8622) since August 2017. Mr. Poon was the alternate to Mr. Amir Gal-Or, a non-executive director of Vincent Medical Holdings Limited (stock code: 1612) during the period from February 2016 to July 2017. Mr. Poon was also the chief executive officer, authorised representative and the company secretary of Anxin-China Holdings Limited (stock code: 1149) during the period from February 2017 to May 2017. Mr. Poon was the independent non-executive director of Sun International Resources Limited (stock code: 8029) during the period from September 2008 to August 2011. Mr. Poon was the executive director and non-executive director of Celebrate International Holdings Limited (previously known as Hong Kong Life Group Holdings Limited, stock code: 8212) during the period from October 2010 to July 2011 and from July 2011 to December 2011, respectively.

Mr. Peng Bobo, aged 32, was appointed as an independent non-executive director and a member of the Audit Committee of the Company on 27 December 2018. Mr. Peng joined the Microelectronics Research Institute of ZTE Corporation as the senior engineer since December 2015 and has been subsequently promoted and appointed as the expert engineer since June 2017. Prior to that, Mr. Peng had been appointed as the engineer and the senior engineer of Advantest Semiconductor Technology Company Limited for the period from August 2012 to August 2014 and for the period from August 2014 to August 2015 respectively. Mr. Peng is a veteran with extensive experience in semiconductor related fields. Mr. Peng obtained a bachelor degree and a master degree in microelectronics from East China Normal University in 2009 and 2012 respectively. Mr. Peng is the joint-inventor for certain invention patents in semiconductor related fields.

SENIOR MANAGEMENT

Mr. Lu Qinglu, aged 46, is currently the director and general manager of LCE Group. Mr. Lu graduated from East China Normal University with a master's degree in business administration. Mr. Lu established Lucky Creation Enterprise (Shanghai) Limited and Jianyi Information Technology (Shanghai) Limited, being a director and general manager since July 2010 and is also an executive partner of 上海尚象投資管理合夥企業（有限合夥）since March 2016. Mr. Lu has been active in the investment and consultancy management of the internet sector in the PRC and Hong Kong.

Mr. Kwan Che Hang Jason, aged 51, was appointed as an executive director of the Company in December 2013 to May 2018. Mr. Kwan was the founder and chief executive officer of Smartac Group. He graduated in 1991 from the University of British Columbia, Canada with a Bachelor of Commerce degree and in 2010 from the EMBA program of Cheung Kong Graduate School of Business. During the period of his university studies, Mr. Kwan was the first chinese marketing executive working for the Vancouver Board of Trade, as well as a part-time writer for the financial section of a local magazine. After graduation, Mr. Kwan joined the Jardines Group and was assigned to work in the IT division of the Jardines Group. In 1995, Mr. Kwan was assigned as the regional manager in Vietnam, and a year later he was assigned to work in the Shanghai subsidiary. In 1998, Mr. Kwan was promoted as the general manager of Eastern China region where he worked until 1999.

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

Mr. Kwan Che Ho Jacky, aged 46, joined the Group's non-wholly owned subsidiary — Smartac Solutions (Suzhou) Limited ("**Smartac Solutions**") in December 2014 as retail business general manager. He graduated from the University of British Columbia with a Master degree of Engineering in 1997. He joined the Hong Kong GEM listed company — Proactive Technology Holdings Limited in 1999, engaged in business communication services and specialised in VoIP communications and call center operations. In 2001, he joined Smartac Group which was acquired by the Group as a non-wholly owned subsidiary in 2013 as sales and marketing general manager. Over these years, he provided application solutions, established and maintained communications and call center systems for various companies in logistics, retail and foreign financial industries such as UPS, TNT, IKEA in China, Hang Lung Properties, UBS, BNP Paribas, Standard Chartered Bank.

Mr. Zhang Fang, aged 39, software development general manager of Smartac Solutions, was responsible for developing online to offline software solutions, SCRM system and processing massive software data distribution and analysis. Mr. Zhang joined Smartac Solutions in 2006 and had worked as senior software develop engineer, project manager, CRM department manager and developer director during the period from 2006 to August 2014. He was promoted to software development general manager in August 2014. Mr. Zhang graduated from Shanghai East China Normal University and joined the direct marketing company — Shanghai Mecox Lane International Mailorder Company Limited to develop invoicing and workflow systems. He had also involved in the development of customer relationship management, enterprise resource planning, management information systems, call center software and was responsible for software projects and database management.

Ms. Yeung Wai Ling, aged 38, is the financial controller and company secretary of the Group. Ms. Yeung graduated from Hong Kong Baptist University and received a bachelor degree in Business Administration (Accounting). She is a member of the Hong Kong Institute of Certified Public Accountants. Before joining the Group in 2015, she has worked in international accounting firm and Singapore listed company. She has extensive experience in auditing and financial reporting.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

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

During the year ended 31 December 2018, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") except for the following deviation:

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

BOARD OF DIRECTORS

Composition

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

Executive Directors	:	Mr. Yang Xin Min *(Chairman and CEO)* Mr. Yang Zhen Mr. Kwan Che Hang Jason *(resigned on 1 June 2018)*
INEDs	:	Dr. Cheng Faat Ting Gary Mr. Poon Lai Yin Michael Mr. Yang Wei Qing *(resigned on 14 November 2018)* Mr. Peng Bobo *(appointed on 27 December 2018)*

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

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

Appointments, Re-election and Removal of Directors

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

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

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

Role and Function

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

During the year, 14 Board meetings were held and the attendance of each Director is set out as follows:

Directors	**No. of meetings attended**
Mr. Yang Xin Min	14/14
Mr. Yang Zhen	14/14
Mr. Kwan Che Hang Jason *(resigned on 1 June 2018) (note)*	3/4
Dr. Cheng Faat Ting Gary	14/14
Mr. Poon Lai Yin Michael	14/14
Mr. Yang Wei Qing *(resigned on 14 November 2018) (note)*	4/8
Mr. Peng Bobo *(appointed on 27 December 2018) (note)*	2/2

Note: The number of meetings attended was counted with reference to the applicable period in which the relevant Director was holding the office.

INEDs

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

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

Chairman and CEO

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

Delegation by the Board

The Board is responsible for the Group's future development directions, overall strategies and policies, evaluation of the financial performance of the Group and approval of matters that are of a material or substantial nature, including adequacy of systems of financial, risk management and internal control, and conduct of business in conformity with applicable laws and regulations. All the directors carry out their duties in good faith, take decisions objectively and act in the interests of the Company and its shareholders at all times.

Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Group are delegated to the Executive Directors and senior management. The types of decisions to be delegated by the Board to the Executive Directors and senior management include implementation of strategies and directions determined by the Board, business operation of the Group, preparation of financial statements and operating budgets, and compliance with applicable laws and regulations. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the above-mentioned officers. All Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense, upon reasonable request made to the Board and are encouraged to access and to consult with the Company's Executive Directors and senior management independently.

Board Diversity

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service, and any other factors that the Board may consider relevant and applicable from time to time. High emphasis is placed on ensuring a balanced composition of skills and experience at the Board level for the benefits of diversity on the Board and enabling the Board to discharge its duties and responsibilities effectively.

Selection of candidates will be based on the Company's nomination policy and will take into account the Board diversity policy. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect. The Nomination Committee shall report its findings and make recommendation to the Board. Such policy and objectives will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board. During the year, the Nomination Committee reviewed the structure, size and diversity of the Board. It also considered the appointment of Mr. Peng Bobo as an independent non-executive Director with reference to his qualifications and related expertise, and the appointment was accepted by the Board.

BOARD COMMITTEES

There are three committees established under the Board:

(a) Audit Committee

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

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

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

— the interim results and annual audited financial statements;

— the auditing and financial reporting matters, including the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2018;

— the appointment of external auditors; and

— the effectiveness of risk management and internal control systems.

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

The Board agrees with the Audit Committee's proposal for the reappointment of RSM Hong Kong as the Company's external auditor for 2019. The recommendation will be put forward for the approval of the shareholders of the Company at the Annual General Meeting to be held on 24 May 2019.

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

Auditor's Remuneration

An analysis of the remuneration paid to the external auditor of the Company, RSM Hong Kong, in respect of audit services and non-audit services for the year ended 31 December 2018 is set out below:

Service category	Fees paid/ payable HK$'000
Audit service	
— Annual audit for 2018	1,300
Non-audit service	
— Review on continuing connected transactions	10
— Taxation	7
	1,317

(b) Remuneration Committee

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

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

Remuneration payable to members of senior management of the Company (excluding Directors) for the year of 2018 is within the following bands:

	Number of individuals	
	2018	2017
Nil to RMB500,000	3	2
RMB500,001 to RMB1,000,000	1	1
RMB1,000,001 to RMB1,500,000	1	1

(c) Nomination Committee

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

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

The Nomination Committee meets at least once a year. The Nomination Committee is responsible to review regularly the structure, size and composition of the Board with reference to the board diversity policy of the Company and to assess and recommend the appointment and re-appointment of Directors to the Board, as well as overseeing the appointment, management succession planning and regularly reviewing the time required from a Director to perform his/her responsibilities.

A proposal for the appointment of a new Director will be considered and reviewed by the Nomination Committee. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an INED should also meet the independence criteria as set out in Rule 3.13 of the Listing Rules.

During the year ended 31 December 2018, the Nomination Committee (i) has reviewed and is of the opinion that the current size and composition of the Board is adequate to facilitate effective decision-making; (ii) assessed the independence of the independent non-executive directors; and (iii) reviewed and made recommendations to the Board on the appointment and re-appointment of the Directors. The Nomination Committee is also satisfied that the Board comprises Directors, who, as a group, provide the core competencies necessary to guide the Group.

Nomination Policy

Objectives

The Nomination Committee assists the Board in making recommendations to the Board on the appointment of directors and succession planning for directors. The Nomination Policy provides the key selection criteria and principles of the Nomination Committee in making any such recommendations.

Selection Criteria

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

- Reputation for integrity;
- Relevant skills and experience in the information technology industry and other relevant sectors;
- Commitment in respect of sufficient time, interest and attention to the Company's business;
- Diversity in all aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge;
- Compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an independent non-executive director; and
- Any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Company's Articles of Association and other applicable rules and regulations.

Nomination Procedures

The Secretary of the Nomination Committee shall convene a meeting, and invite nominations of candidates from Board members (if any), for consideration by the Nomination Committee. The Nomination Committee may also nominate candidates for its consideration.

In the context of appointment of any proposed candidate to the Board, the Nomination Committee shall undertake adequate due diligence in respect of such individual and make recommendations for the Board's consideration and approval.

In the context of re-appointment of any existing member(s) of the Board, the Nomination Committee shall make recommendations to the Board for its consideration and recommendation, for the proposed candidates to stand for re-election at a general meeting.

Please refer to the "Procedures for shareholders to propose candidates for election as Directors", which is available on the Company's website, for procedures for shareholders' nomination of any proposed candidate for election as a director.

The Nomination Committee shall review and monitor the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board on an annual basis and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at a general meeting.

Review of the Nomination Policy

The Nomination Committee will review the Nomination Policy periodically in line with the Company's strategy and recommend any proposed changes to the Board for approval.

Attendance Record at Board Committee Meetings

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

	No. of meetings attended		
Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. Yang Xin Min	N/A	7/7	4/4
Dr. Cheng Faat Ting Gary	3/3	7/7	4/4
Mr. Poon Lai Yin Michael	3/3	7/7	4/4
Mr. Yang Wei Qing *(resigned on 14 November 2018) (note)*	0/2	N/A	N/A
Mr. Peng Bobo *(appointed on 27 December 2018) (note)*	N/A	N/A	N/A

Note: The number of meetings attended was counted with reference to the applicable period in which the relevant Director was holding the office.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Every Director keeps abreast of responsibilities as a Director and of the conduct, business activities and development of the Company. Every newly appointed director receives an induction package covering the statutory and regulatory obligations of directors, group structure and terms of reference of board committees. The Company Secretary from time to time updates and provides written training materials on the latest development of the Listing Rules and applicable laws, rules and regulations to the Directors.

The Company Secretary maintains records of trainings attended by the Directors. The trainings attended by the current Directors during the year are as follows:

Directors	**Training areas**
Executive Directors	
Mr. Yang Xin Min	Corporate governance, regulatory
Mr. Yang Zhen	Corporate governance, regulatory
Mr. Kwan Che Hang Jason *(resigned on 1 June 2018)*	Regulatory
Independent Non-Executive Directors	
Dr. Cheng Faat Ting Gary	Corporate governance, regulatory, finance, managerial
Mr. Poon Lai Yin Michael	Corporate governance, regulatory, finance
Mr. Yang Wei Qing *(resigned on 14 November 2018)*	Corporate governance, regulatory
Mr. Peng Bobo *(appointed on 27 December 2018)*	Director induction training

DIRECTORS' SECURITIES TRANSACTIONS

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

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

ACCOUNTABILITY AND AUDIT

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

The statement of the auditors of the Company about their responsibilities for the audit of the Group's consolidated financial statements is set out in the Independent Auditor's Report on pages 56 to 61.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

POLICY AND PROCEDURES OF INSIDE INFORMATION HANDLING AND DISSEMINATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that Inside Information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

— the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

— the Group strictly prohibits unauthorised use of confidential or inside information applicable to all employees of the Group;

— the Group strictly keeps inside information confidential and restricts to relevant parties on a need-to-know basis so as to ensure confidentiality until consistent and timely disclosure of the inside information in an equal and timely manner by way of financial reporting, company announcements and its website; and

— the Board consults the Company's legal advisor in assisting to assess whether the relevant information is considered to be inside information which needs to be disclosed as soon as reasonably practicable.

DIVIDEND POLICY

The Company considers stable and sustainable returns to the shareholders of the Company to be our goal. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:

(i) the Group's actual and expected financial performance;

(ii) the Group's actual and future operations and liquidity position;

(iii) the Group's expected working capital requirements, future expansion plans and future commitments at the time of declaration of dividend;

(iv) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

(v) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(vi) any restrictions under the Companies Law of the Cayman Islands and any applicable laws, rules and regulations relevant to the Group;

(vii) the retained earnings and distributable reserves of the Company and each of the members of the Group;

(viii) general economic conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(ix) any other factors that the Board deems appropriate.

The dividend policy and the declaration and/or payment of future dividends under the dividend policy are subject to the Board's continuing determination that the dividend policy and the declaration and/or payment of dividends would be in the best interests of the Group and shareholders, and are in compliance with all applicable laws and regulations.

The Board endeavours to maintain a balance between meeting shareholders' expectations and prudent capital management with a sustainable dividend policy.

The Board will continually review the dividend policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the dividend policy at any time.

The dividend policy shall in no way constitute a legally binding commitment by the Group in respect of its future dividend and/or in no way obligate the Group to declare a dividend at any time or from time to time, there can be no assurance that dividends will be paid in any particular amount for any given period.

Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the abovementioned factors.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

Environmental, Social and Governance Report

ABOUT THIS REPORT

The Environmental, Social and Governance Report (the "**ESG Report**") published by the Company and its subsidiaries (collectively the "**Group**" or "**we**") not only elaborates their commitment and strategies, but also summarises the efforts and achievements on corporate social responsibility and sustainable development during the year ended 31 December 2018. As for the information of corporate governance, please refer to the Corporate Governance Report on Page 18 to 29 of this Annual Report.

Scope of the ESG Report

The ESG Report focuses on our sustainability approach and performance in environmental and social aspects of our core business in the PRC and Hong Kong, namely (i) sales of software and provision of Online to Offline ("**O2O**") consultation service; (ii) provision of digital advertising platform and related solutions; and (iii) provision of marketing strategy and management of operation of online shop on e-commerce platform, during the year ended 31 December 2018. We have displayed the environmental and social related key performance indicators ("**KPIs**") of our subsidiaries in Suzhou and Shanghai in this report, including all the KPIs of Environmental Aspects (Subject Area A, if applicable) and part of the KPIs of Social Aspects (Subject Area B). The Group will make continual efforts in reviewing the performance in environmental and social aspects, and consider expanding the scope of the ESG Report in the future.

Reporting Framework

The ESG Report was prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" to the Listing Rules.

Information and Feedbacks

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

STAKEHOLDER ENGAGEMENT

Communication with Stakeholders

The Group recognises the importance of stakeholders' views to our business. Exemplifying our commitment to communicating with stakeholders, including both internal and external parties, we have established diversified channels to understand their expectations and needs, which are essential to our business development.

Stakeholders	Expectations and Requirements	Means of Communication and Response
Government and Regulators	• Strict compliance with national policies, laws and regulations • Promoting local economic growth • Promoting local employment • Paying taxes in full and on time	• Regular information reporting • Examinations and inspections
Shareholders	• Returns • Operation in compliance with laws • Raise in company value • Transparency of information and effective communication	• General meetings • Announcements • Email, telephone communication and company website
Partners	• Operational integrity • Equal rivalry • Performance of contracts • Mutual benefits and win-win situations	• Business communications • Engagement and cooperation
Customers	• Outstanding products and services • Health and safety • Performance of contracts • Operational integrity	• Customer service center and hotlines • Customer communication meetings • Social media platforms • Calling for feedback
Environment	• Energy saving and emission reduction	• Reporting
Industry	• Promoting industry development	• Participation in industry forums • Exchange visits
Employee	• Protection of rights • Occupational health • Remunerations and benefits • Career development	• Employee communication meetings • Corporate journal and intranet • Training and workshops • Employee activities
Community and the public	• Improvement of community environment	• Corporate website • Announcements • Social media platforms

Also, we have engaged employees from different departments in the preparation of ESG Report, which enables us to better recognise our current environmental and social development. The information and data collected are not only a summary of our environmental and social initiatives carried out during the year ended 31 December 2018, but also form the basis for us to map out short-term and long-term strategies for sustainable development.

Materiality Assessment

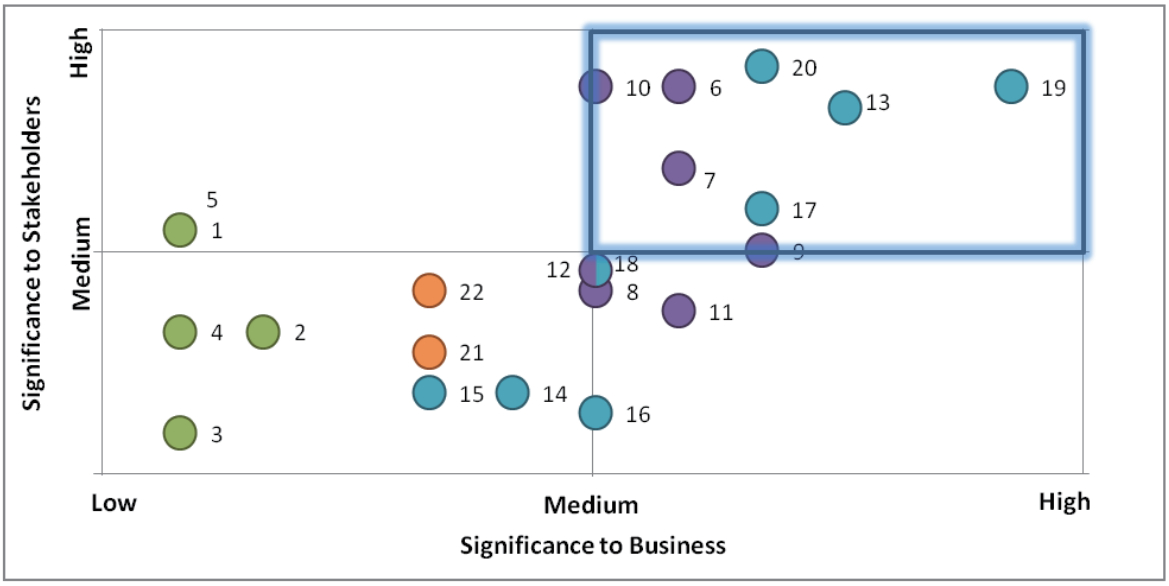
The Group commissioned an independent third-party consultant for assistance in conducting a just and fair materiality assessment during the preparation of the ESG Report, thereby ensuring comprehensive disclosure of information. The materiality assessment was performed in the following three main phases:

(i) identifying of potential material environmental, social and governance issues that might affect the Group's business or stakeholders;

(ii) inviting internal and external stakeholders (including employees, management, directors, clients, suppliers, and community) to conduct questionnaire survey, so as to understand their views and expectations on the Group's response to and disclosures of environmental, social and governance issues; and

(iii) prioritising potential material issues based on the analysis results of the questionnaire survey.

We have mapped 22 issues onto a matrix reflecting their significance to stakeholders (y-axis), and their importance to our business (x-axis).



Environment	Labour Practices	Operation Practices	Community Investment
1 Compliance with Environmental Laws and Regulations	6 Compliance with Labour Laws and Regulations	13 Compliance with Laws and Regulations relating to Provision and Use of Products and Services	21 Impact on Community
2 Waste Management	7 Employees' Remuneration and Benefits	14 Supplier Environmental Assessment	22 Direct Economic Value Generated for Community
3 Greenhouse Gas ("**GHG**") Emissions	8 Employees' Working Hour and Rest Period	15 Supplier Assessment for Labour Practices and Human Right	
4 Energy Management	9 Diversity and Equal Opportunity	16 Supplier Assessment for Impacts on Society	
5 Research and Development	10 Occupational Health and Safety	17 Customer Health and Safety	
	11 Training and Education	18 Marketing and Labeling	
	12 Child Labour and Forced Labour	19 Customer Privacy	
		20 Anit-corruption	

Through the aforementioned procedures, we have eventually identified 8 most material aspects and responded in the following corresponding sections.

Material Aspect		Corresponding Section
6	**Compliance with Labour Laws and Regulations**	**EMPLOYMENT AND LABOUR PRACTICES** Employment Health and Safety Labour Standards
7	**Employees' Remuneration and Benefits**	**EMPLOYMENT AND LABOUR PRACTICES** Employment Salary and Benefits
9	**Diversity and Equal Opportunity**	**EMPLOYMENT AND LABOUR PRACTICES** Employment
10	**Occupational Health and Safety**	**EMPLOYMENT AND LABOUR PRACTICES** Health and Safety
13	**Compliance with Laws and Regulations relating to Provision and Use of Products and Services**	**OPERATING PRACTICES** Product Responsibility Data and Privacy Protection
17	**Customer Health and Safety**	**OPERATING PRACTICES** Supply Chain Management Product Responsibility
19	**Customer Privacy**	**OPERATING PRACTICES** Data and Privacy Protection
20	**Anti-corruption**	**OPERATING PRACTICES** Anti-corruption

ENVIRONMENTAL PROTECTION

Emissions

Due to the absence of manufacturing and construction activities, the operations of the Group do not generate significant air and water pollutants. The wastewater generated by the Group is mainly domestic sewage, which is discharged into municipal wastewater treatment plant for further treatment. The key environmental impacts of the Group's operations are the indirect GHG emissions from electricity, water consumption at the workplace, overseas business travel, and paper waste disposal at landfills. Wastes generated by the Group are contributed by daily office operation. Non-hazardous waste produced includes general domestic waste and waste paper; whereas hazardous waste includes tube lights, batteries and computers. During the year ended 31 December 2018, hazardous waste was produced only by the Group's subsidiaries in Suzhou, amounting to 24 kg, with every square meter of floor area of the subsidiaries producing 0.05 kg of hazardous waste. No hazardous waste with significant environmental impact is produced due to the mode of the Group's business operation.

During the year ended 31 December 2018, data related to GHG emissions and non-hazardous waste generation of the Group's subsidiaries in Suzhou and Shanghai are as follows:

Indicators	**2018**	2017[1]
Total GHG emissions (t CO_2e)	**303**	139
Direct emissions (Scope 1) (t CO_2e)	**118**	0
Energy indirect emissions (Scope 2) (t CO_2e)	**173**	133
Other indirect emissions (Scope 3) (t CO_2e)	**12**	6
Intensity of GHG emissions (t CO_2e/m^2 floor area)	**0.28**	0.25
Intensity of GHG emissions (t CO_2e/RMB'000)	**0.02**	0.09
Total non-hazardous waste produced[2] (kg)	**3,380**	N/A
Intensity of non-hazardous waste produced (kg/m^2 floor area)	**3**	N/A
Intensity of non-hazardous waste produced (kg/RMB'000)	**0.19**	N/A

1 Data of emissions and wastes generation in 2017 were confined to the emissions and wastes generated by subsidiaries in Suzhou.

2 The Group starts reporting data of non-hazardous waste in 2018. No accurate record of the amount of non-hazardous waste, including general domestic waste, was made during the year ended 31 December 2018. Therefore, the data of non-hazardous waste are based on the best estimation by the management.

Use of Resources

Resources used by the Group are mainly attributed to electricity and water consumption at its offices. In addition, use of packaging materials is not involved in the Group's business. During the year ended 31 December 2018, water consumption of the Group's subsidiaries in Shanghai was amounted to 490 m^3, with every square meter of floor area of the subsidiaries consuming 0.89 m^3 of water. As for the Group's subsidiaries in Suzhou, the water consumption is unavailable since the water bills were paid in the unit of the entire building of the subsidiaries, including lessees' water bills which were included in their management fees.

During the year ended 31 December 2018, total electricity consumption and intensity of the Group's subsidiaries in Suzhou and Shanghai are as follows:

Indicators	**2018**	2017[3]
Total electricity consumption (MWh)	**246**	190
Intensity of electricity consumption (MWh/m^2 floor area)	**0.24**	0.35
Intensity of electricity consumption (MWh/RMB'000)	**0.01**	0.12

3 Data of water and electricity consumption in 2017 were confined to the water and electricity consumed by subsidiaries in Suzhou.

Emission Reduction and Resource Conservation

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

The Group has adopted a number of measures to maximise energy utilisation efficiency. For example, we encourage our employees to switch off air conditioners, computers, lights and all electric devices after work to avoid energy wastage. We also promote the use of natural light so as to minimise electricity used for lighting. Filters of air conditioners are regularly cleaned for improving refrigerating efficiency. Due to the indirect GHG emissions caused by vehicles and planes, priority is given to teleconferencing to avoid unnecessary business travel.

To reduce water consumption, the Group has launched multiple water efficiency initiatives. Raising water-saving awareness among the Group, we encourage our employees to conserve water by controlling faucet at small to medium water flow. Maintenance on water equipment is intensified whereas regular inspection and replacement of ageing water pipes are conducted, so as to minimise water leakage and maximise water use efficiency.

Since the Group operates its business principally in offices, green office practices are particularly crucial in demonstrating our efforts in environmental protection. Procurement of office supplies is centralised and based on office needs in order to avoid wastage. We also promote paper conservation by encouraging employees to reuse single-sided printed papers and to adopt double-sided printing mode. Where possible, documents are edited on computer before finalisation to avoid paper waste caused by reprinting. Recyclable consumables are placed in designated areas before being collected by property management, while consumables for courier services are collected and recycled by courier companies.

Environment and Natural Resources Protection

Although the Group's operations do not exert significant adverse effects on environment and natural resources, we strive to minimise the potential environmental impacts. The Group understands the importance of employees' support and participation in protecting the environment and natural resources. To this end, employees are frequently reminded by emails and intranet to integrate the awareness of environmental protection into their daily work. For examples, tree planting event was held for employees from our subsidiaries in Shanghai for the year ended 31 December 2018, for the purpose of promoting natural resources protection. At the same time, in strict compliance with all the national and regional laws and regulations regarding pollution control and environmental protection, including the *Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) and Environmental Protection Law of the PRC (中華人民共和國環境保護法)*, the Group continued to execute its practices that improve energy efficiency and give careful consideration to conserve resources during the year ended 31 December 2018.

EMPLOYMENT AND LABOUR PRACTICES

Employment

Employees are regarded as the most valuable assets and the core competitive advantage of the Group. The Group's practices and policies with respect to: (i) compensation and dismissal; (ii) recruitment and promotion; (iii) working hours; (iv) rest periods; (v) equal opportunity; (vi) diversity; (vii) anti-discrimination; and (viii) other benefits and welfare continued to comply with relevant laws and regulations, including but not limited to the *Labour Law of the PRC (中華人民共和國勞動法)* and *Employment Ordinance (僱傭條例)* of Hong Kong. In order to ensure employees' understanding of the Group's policies, employee handbook has been issued to each employee. Terms and conditions of employment, staff compensation and benefits (yearly bonus, allowances, various types of leave entitlement, medical benefits, social security, mandatory provident fund, and training), promotion channel, occupational safety, complaint channels, and office rules are clearly stated in the employee handbook.

The Group conducts recruitment and promotion in accordance to employees' ability, performance, experience and the requirements of the position. No discriminatory policies based on race, religion, gender, marital status, and disability will be allowed so as to provide good working environment free from discrimination and harassment, thus putting the principle of equality and fairness into practice. We understand the importance of employees' opinions in enhancing workplace productivity as well as building a united and harmonious professional team. Therefore, contribution of valuable opinions from employees through verbal or written channels is encouraged to promote effective communication within the Group.

Salary and Benefits

The Group offers competitive remuneration and implements a sound performance appraisal system with appropriate incentives. Salaries are reviewed and adjusted on a yearly basis. Working hours are clearly set out in the employment contract. When working hours are extended, employees will be entitled to overtime pay or compensation leave upon prior approval of their managers. The Group offers our employees a yearly bonus based on performance appraisals and market trend. Employees also enjoy paid leave for statutory holidays, annual leave, sick leave, marriage leave, compassionate leave, and maternity leave.

A variety of activities have been hosted during the year ended 31 December 2018 to create a harmonious working environment and to enhance the sense of belongings of employees to the Group. For example, during the traditional festival, the Group has held celebration events, such as the Spring Festival Gala, and offered welfare gifts to celebrate the joy of festival.

Health and Safety

To protect employees' occupational health and safety, the Group is committed to providing a safe, healthy and comfortable working environment and complies with relevant laws and regulations on occupational health and safety, including but not limited to the *Law of the PRC on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法)* and *Occupational Safety and Health Ordinance (職業安全及健康條例)* of Hong Kong.

The Group offers its employees medical insurance coverage and health check plans. Employees are trained to follow the safety rules and regulations in accordance to employee handbook and employment contract. Training on utilising available and appropriate protection measures at all times, is also provided to employees to avoid accidents and protect both themselves and their coworkers from safety risks. The Group is obliged to provide necessary personal protective equipment, which is up to national standard, at workplaces such as warehouse, while employees have to keep things in order to ensure the cleanliness of workplaces. Employees operating special equipment like forklift are required to obtain a valid license and pass specific tests arranged by the Group. The Group also regards fire safety as an integral part of our business operation. We have established a comprehensive fire control system, clarifying departmental responsibilities and setting out rules regarding fire safety. Regular safety checks have been conducted to identify potential safety risks. For the year ended 31 December 2018, subsidiaries in Suzhou and Shanghai have conducted multiple fire drills and safety checks to promote awareness of health and safety among our employees.

During the year ended 31 December 2018, the Group did not encounter any major accidents, employee fatalities or serious work-related injuries during operation.

Development and Training

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

The Group provides induction training for new employees to help them familiarise with the business operation, vision and mission, core values, business goals and overview, as well as the product knowledge. On-the-job training is also provided to improve employees' performance, including but not limited to outbound training, in-house training, and corporate external training courses, which covers knowledge on company policies, safety, management and technical skills. Employees are also encouraged to enroll in external training courses with whole or part of the training fees subsidised by the Group upon the approval from human resources department and related department manager.

Besides training, the Group also conducts regular appraisal review as the basis of salary adjustment and promotion by assessing employees' performance on fulfilling their responsibilities. As such, employees can improve their performance at work, thereby ensuring efficient business operation and enhancing overall business performance of the Group.

Labour Standards

Recruitment of child labour is strictly prohibited within the Group. Applicant's identity information is verified during the recruitment process. The Group enters into employment contract with employees in accordance with local laws and regulations, including but not limited to the *Labour Contract Law of the PRC (中華人民共和國勞動合同法)* and *Employment Ordinance (僱傭條例)* of Hong Kong, with their job duties and working hours clearly stated in the contract. Working overtime is not encouraged within the Group. Employees are entitled to overtime pay or compensation leave if they are required to work overtime. No employee is paid less than the minimum wage specified by the government regulations, such as the *Labour Law of the PRC (中華人民共和國勞動法)* and *Minimum Wage Ordinance (最低工資條例)* of Hong Kong. Monthly salary payments, social insurance, and mandatory provident fund contributions are made on time according to the employee handbook.

OPERATING PRACTICES

Supply Chain Management

The Group values the partnership with suppliers and strives to jointly promote sustainable development of the industry. The Group has established a comprehensive supplier management system, which has set out the accountability of different departments, to assess the suitability of potential suppliers and evaluate existing suppliers. Ensuring the quality of our products and services, the Group only cooperates with suppliers with relevant business or production license. Assessment of potential suppliers' production and delivery conditions, as well as their quality management system are conducted during the selection of suppliers. Existing suppliers are annually evaluated on the basis of their technical standards, quality of services and products, and client satisfaction. .

Product Responsibility

The Group complies with laws and regulations relating to its business operation in areas like health and safety, as well as advertising matters, including but not limited to the *Advertising Law of the PRC (中華人民共和國廣告法)* and *Product Quality Law of the PRC (中華人民共和國產品質量法)*. The Group stresses the importance of providing customers with accurate and true information. All product information, including descriptions and pictures, strictly comply with national laws as well as regulations on online shopping platform. The Group also pays high attention to the quality and safety of its services. A rigorous quality inspection system is implemented to assure the quality of products. Inspection of product labels, appearance and other criteria is conducted upon arrival, whereas returned products are inspected with stricter standards. The Group has established an enterprise resource planning (ERP) system for the management of goods record and delivery. We also strive to provide a sound system of customer service. To monitor the quality of customer service provided, performance of customer service representatives is reviewed regularly, in accordance to criteria like timeliness of response and courtesy. Any complaints received will be immediately assessed and internal investigation into the matter will be conducted to identify the possible causes of the issue and take corresponding remedial actions. During the year ended 31 December 2018, the Group's subsidiaries in Shanghai have been awarded as Tmall Star Service Provider.

Data and Privacy Protection

The Group strictly abides by the *Trademark Law of the PRC (中華人民共和國商標法)*, *Patent Law of the PRC (中華人民共和國專利法)*, *Copyright Law of the PRC (中華人民共和國著作權法)*, and other relevant laws and regulations during operation. The Group attaches importance to data protection. It is the Group policy to forbid all personnel from using personal devices to backup company's files. Authorisation is also necessary for staff to view client information. Source code backup is performed from time to time to protect critical information from losing in the event of system crashes and errors. Due to the involvement of intellectual property rights of customers, suppliers, and the Group, protecting intellectual property rights has become another important task. Protective clauses are included in the contracts entered into with customers and suppliers to safeguard the intellectual property rights and confidentiality of all parties.

In consistence with employee handbook and employment contract, employees are disallowed to disclose any information obtained in connection with their employment, including but not limited to, trade secrets, know-how, client information, supplier information, and other proprietary information for the benefits of his/her own and others.

Anti-corruption

The Group strictly complies with all the national and regional laws and regulations relating to extortion, fraud and money-laundering, such as the *Criminal Law of the PRC (中華人民共和國刑法)* and *Prevention of Bribery Ordinance (防止賄賂條例)* of Hong Kong. To promote integrity and prevent unethical pursuits, the Group has implemented an effective whistle-blowing policy for reporting wrongdoings in accordance with employee handbook. The Group has also set out integrity agreement for the purpose of signing with the external parties to avoid any advantage given or received in the conduct of the Group's business.

During the year ended 31 December 2018, no violation of laws, regulations, or internal provisions of the Group relating to anti-corruption had occurred during operation.

Community Investment

In addition to focusing on its business development, the Group always strives to build and maintain close relationship with local community and contribute to local development. Meanwhile, the Group also actively encourages employees to participate in voluntary activities to benefit local communities and render assistance to the needy.

To provide local employment opportunities, the Group's subsidiaries in Suzhou continued to fulfill their social responsibility by offering employment opportunities and pre-job training to landless farmers.

APPENDIX: ESG REPORTING GUIDE CONTENT INDEX

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

Subject Areas and Aspects	Description	Section in ESG Report
Aspect A3: The environment and natural resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environment and Natural Resources Protection
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environment and Natural Resources Protection
B. Social		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practices
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Not disclosed
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Not disclosed
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities.	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category.	Not disclosed
KPI B3.2	The average training hours completed per employee by gender and employee category.	Not disclosed

Subject Areas and Aspects	Description	Section in ESG Report
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
KPI B4.2	Description of steps taken to eliminate child and forced labour practices when discovered.	Not disclosed
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Not disclosed
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable to the Group's business
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Data and Privacy Protection
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Data and Privacy Protection

Subject Areas and Aspects	Description	Section in ESG Report
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption
Community		
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes into consideration the communities' interests.	Community Investment
KPI B8.1	Focus areas of contribution.	Not disclosed
KPI B8.2	Resources contributed to the focus areas.	Not disclosed

PRINCIPAL ACTIVITIES

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

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 62 to 63.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

FIVE YEAR FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 19 to the consolidated financial statements.

PROPERTY HELD FOR INVESTMENT

As at 31 December 2018, the Group has investment properties located in Yinglian International Epibolic Centre, No. 288 Dongping Street, Suzhou Industrial District, Suzhou City, Jiangsu Province, the PRC. The investment properties are held for commercial use and on medium term lease. Details of the investment properties are set out in note 20 to the consolidated financial statements.

SHARES ISSUED DURING THE YEAR

Details of the shares issued during the year ended 31 December 2018 are set out in note 38 to the consolidated financial statements.

RESERVES

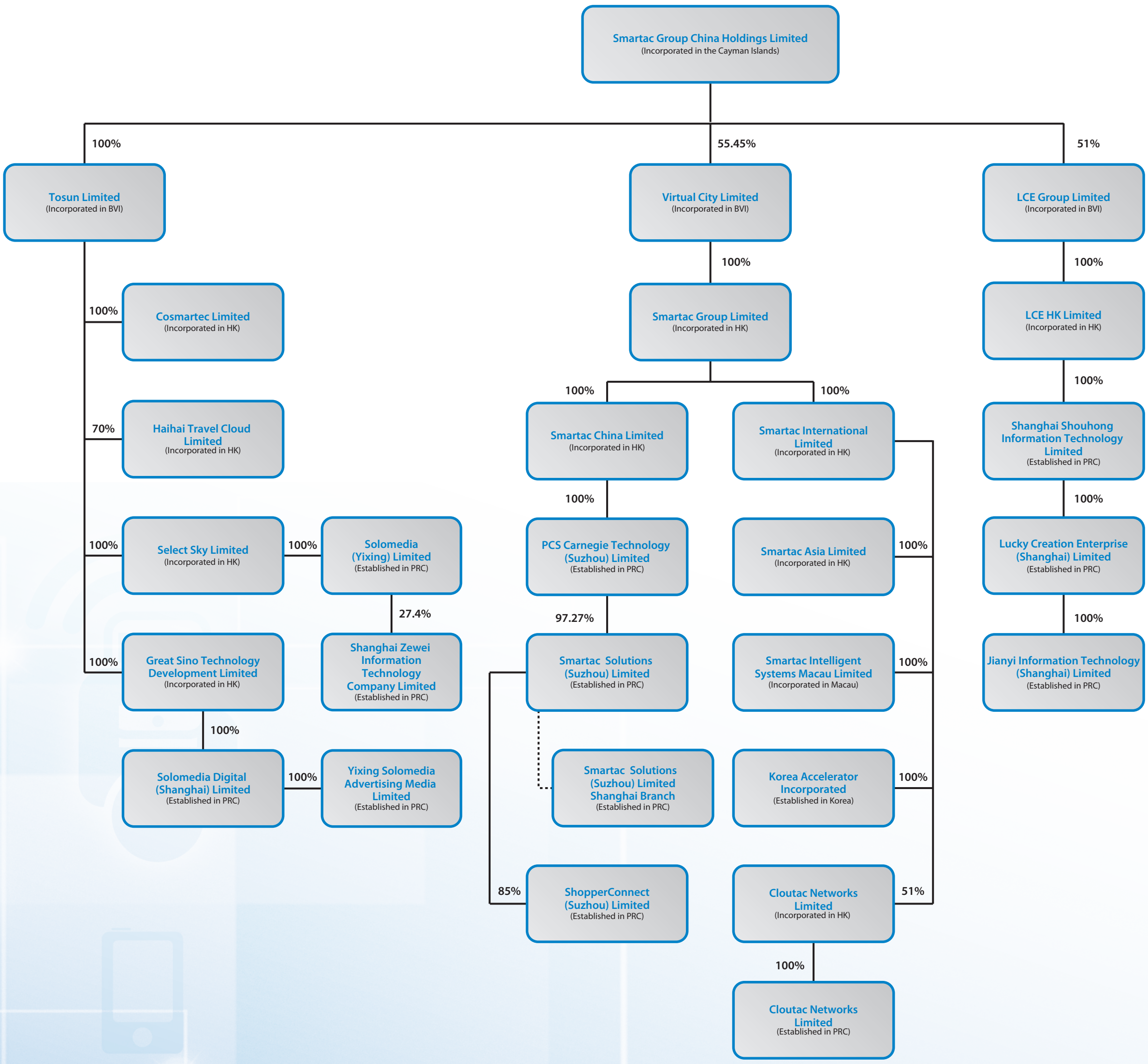
Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 66.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law of the Cayman Islands and the Company's articles of association, in addition to the retained profits of the Company, the ordinary share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2018 amounted to RMB116,393,000 (2017: Nil).

GROUP STRUCTURE

As at 31 December 2018, the Group's structure was as follows:



DIRECTORS

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

Executive Directors

Mr. Yang Xin Min, *Chairman and Chief Executive Officer*
Mr. Yang Zhen
Mr. Kwan Che Hang Jason (resigned on 1 June 2018)

Independent Non-Executive Directors

Dr. Cheng Faat Ting Gary
Mr. Poon Lai Yin Michael
Mr. Yang Wei Qing (resigned on 14 November 2018)
Mr. Peng Bobo (appointed on 27 December 2018)

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

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("**SFO**") which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares

		Number of Shares		Approximate Percentage of Total Share Capital
Name of Director	**Capacity**	**Personal Interest**	**Total Interests**	
Yang Xin Min	Beneficial	592,573,880	592,573,880	10.51%
Yang Zhen	Beneficial	1,336,000	1,336,000	0.02%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, so far as was known to the Directors and the chief executive of the Company, the following persons had an interest or short position in the shares and underlying shares in would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

Long positions in the shares

		Number of Shares		Approximate Percentage of Total Share Capital
Name of Shareholder	**Capacity**	**Personal Interest**	**Total Interests**	
Yang Xin Min	Beneficial	592,573,880	592,573,880	10.51%

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE GROUP'S BUSINESS

Details of the connected transactions and related party transactions are disclosed in this report and in note 45 to the consolidated financial statements respectively.

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

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

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

SHARE OPTIONS GRANTED PURSUANT TO THE SHARE OPTION SCHEME

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

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

The total number of shares in respect of which options may be granted under the New Scheme shall be 230,936,210 shares, representing approximately 4.1% of the issued share capital of the Company as at the date of this annual report.

(i) Purpose

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

(ii) Eligible participants

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

(iii) Maximum number of shares

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

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

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

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

(iii) Maximum entitlement of each eligible participant

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

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

(iv) Offer acceptance period and option price

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

(v) Timing for exercise of Options

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

(vi) Subscription price

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

For the year ended 31 December 2018 and 2017, no Options have been granted by the Company under the Old Scheme and the New Scheme.

CONNECTED TRANSACTIONS

Continuing connected transactions

During the year, the Group had the following continuing connected transactions which were required to be disclosed in compliance with the requirements of Chapter 14A of the Listing Rules. On 30 December 2016, the Company and subsidiaries of the Company, save and except for Smartac Group Limited and its direct or indirect wholly or non-wholly owned subsidiaries ("**Contractor Group**"), entered into the Master Agreement with Smartac Group Limited and its direct or indirect wholly or non-wholly owned subsidiaries ("**Sub-Contractor Group**") in relation to the provision of sub-contracting services by the Sub-Contractor Group. The Sub-Contractor Group is directly owned by Virtual City Limited which in turn is owned as to 55.45% by the Company and 44.55% by CSS. Since Mr. Kwan Che Hang Jason, director (resigned on 1 June 2018) and shareholder of the Company, is also the controlling shareholder of CSS, any company of the Sub-Contractor Group is therefore a connected person of the Company. As such, the transactions contemplated under the Master Agreement would constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The Master Agreement had a term of three years from 1 January 2017 to 31 December 2019. According to the Master Agreement, the aggregate services charged to the Contractor Group by the Sub-Contractor Group for the year ended 31 December 2018 were software installation service of RMB12,806 (2017: software installation service of RMB226,357). The Contractor Group entered into the deed of termination with Sub-Contractor Group to terminate the Master Agreement on 31 December 2018.

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

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

(ii) on normal commercial terms or better; and

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

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the Group entered into transactions with related parties as set out in note 45 to the consolidated financial statements. Apart from the items disclosed in the section "Connected Transactions", all other material related party transactions did not constitute non-exempt connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 18 to 29.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate revenue attributable to the largest customer and the five largest customers of the Group accounted for approximately 21.4% and 55.7% of the Group's total revenue for the year respectively; and the aggregate purchases from the largest and the five largest suppliers of the Group accounted for approximately 58.6% and 84.6% of the Group's total purchases for the year, respectively.

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Details of responsibilities of directors for the consolidated financial statements are set out in the Independent Auditor's Report on page 59. The Directors are responsible for the proper keeping of accounting record in order to secure assets of the Company and the Group.

The Directors are also responsible for adopting reasonable measures to prevent and check any fraudulences and irregularities.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the section headed "Management Discussion and Analysis" on pages 6 to 7 of this annual report which forms part of this Directors' Report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or Companies Law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

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

NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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

AUDITOR

At the last annual general meeting of the Company, RSM Hong Kong was re-appointed as the auditor of the Company. On 22 November 2018, the auditor of the Company changed its Chinese practising name to "羅申美會計師事務所".

The consolidated financial statement has been audited by RSM Hong Kong who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Hong Kong will be put at the forthcoming Annual General Meeting.

By order of the Board

Yang Xin Min
Executive Director

28 March 2019

Independent Auditor's Report

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

RSM

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

Opinion

We have audited the consolidated financial statements of Smartac Group China Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 62 to 150, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

1. Impairment assessment of goodwill and intangible assets of E-commerce solutions segment; and

2. Accounting for fair value change on contingent shares payables.

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Impairment assessment of goodwill and intangible assets of E-commerce solutions segment	**Our procedures in relation to this matters include:**
Refer to notes 5(ii)(c), 5(ii)(e), 23 and 24 to the consolidated financial statements	
The Group recorded goodwill and intangible assets arising from the acquisition of 51% equity interest in LCE Group Limited and its subsidiaries (the "**LCE Group**") in 2017. The carrying amounts of goodwill and intangible assets amounted to RMB59,883,000 and RMB33,461,000, respectively as at 31 December 2018 (before impairment loss for the year), attributable to cash-generating unit ("**CGU**") of E-commerce solutions segment. Goodwill is required to be tested for impairment on an annual basis. The Group recorded operating loss of RMB9,076,000 (before tax and impairment loss) for the year ended 31 December 2018 under E-commerce solutions segment. This indicated that the carrying amounts of goodwill and intangible assets attributable to E-commerce solutions segment CGU might be impaired. Impairment loss of RMB48,432,000 was recorded against goodwill for the year ended 31 December 2018 to reduce the carrying amount of the CGU to its recoverable amount. The recoverable amount was determined on the basis of value-in-use model that required significant management judgement in making assumptions about budgeted revenues, profit margins, growth rates and in selecting appropriate market discount rates.	• Evaluating the independence, competence, capabilities and objectivity of external valuer; • Assessing the integrity of the value-in-use model; • Challenging the reasonableness of management's key assumptions based on our knowledge of the business and the industry; • Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets; • Assessing the appropriateness of the discount rates used with the assistance of our internal valuation specialists; and • Assessing the adequacy of the disclosures in relation to the impairment assessment.

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Accounting for fair value change on contingent shares payables Refer to note 36 to the consolidated financial statements The Group acquired 51% equity interest in the LCE Group in 2017. The consideration for the acquisition included an amount to be settled by the Company's shares (the "**Consideration Shares**") conditional upon the LCE Group meeting specified profits target ("**Profits Target**") from 2017 to 2019 financial years. As at 31 December 2017, contingent shares payables of RMB26,488,000 were recognised in the Group's consolidated statement of financial position. The E-commerce solutions segment recorded an operating loss of RMB2,395,000 (before tax and fair value adjustments arising from acquisitions) for the year ended 31 December 2018. The LCE Group did not meet the Profits Target in 2018 financial year. The directors expected that the Profits Target in 2019 would also not be met based on the latest budgets and cash flow forecasts of the LCE Group. Consequently, the fair value of the Consideration Shares payables was considered to be insignificant and a fair value gain of RMB21,359,000 was recognised in profit or loss for the year. The fair value of the Consideration Shares as at 31 December 2017 was determined with the assistance of an independent external valuer. The fair value measurement required significant management judgement and estimates in making assumptions about whether the 2018 and 2019 Profits Target would be achieved.	**Our procedures in relation to this matters include:** • Evaluating the independence, competence, capabilities and objectivity of external valuer; • Challenging the reasonableness of key assumptions underlying the cash flow forecasts of the LCE Group, with reference to the historical performance of the LCE Group and our understanding of its business; • Working with our in house valuation specialist to assess the appropriateness of valuation approach and model used by management; and • Reviewing the appropriateness of the disclosures in the consolidated financial statements.

Other Information

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

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

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

Responsibilities of Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. Chu Man Wah, Sharon.

RSM Hong Kong
Certified Public Accountants
Hong Kong
28 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	8	**17,356**	15,693
Cost of sales		**(2,406)**	–
Fair value (loss)/gain of investment properties	20	**(800)**	2,600
Other income	9	**6,979**	6,721
Hardware, telecom and direct operation costs		**(2,483)**	(8,208)
Fair value gain of contingent share payables	36	**21,359**	–
Employee benefits expenses	14	**(22,165)**	(18,763)
Allowance for trade receivables		**–**	(462)
Impairment loss on other receivables		**(11,644)**	(158)
Reversal of allowance for trade receivables		**1,734**	45
Reversal of allowance for other receivables		**681**	–
Other operating expenses		**(14,715)**	(25,247)
Depreciation	19	**(1,819)**	(2,341)
Amortisation of intangible assets	24	**(6,705)**	(12,144)
Impairment loss on intangible assets	23(b)	**–**	(23,760)
Impairment loss on goodwill	23	**(48,432)**	(5,695)
Write-back of other payables	33	**–**	23,443
Reversal of provision for onerous contracts	33	**–**	50,575
Provision for capital gain tax	32(c)	**(566)**	(5,581)
Gain on disposal of subsidiaries	41(a)	**–**	3,959
Loss on de-registration of subsidiaries		**–**	(378)
(Loss)/profit from operations		**(63,626)**	299
Finance costs	11	**(533)**	(792)
Share of result of an associate	26	**(176)**	(433)
Loss before tax		**(64,335)**	(926)
Income tax credit/(expense)	12	**1,921**	(4,740)
Loss for the year	13	**(62,414)**	(5,666)
Other comprehensive income for the year:			
Items that will not be reclassified to profit or loss:			
Fair value change of equity investment at fair value through other comprehensive income ("**FVTOCI**")		**830**	–
Items that may be reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries	41(a)	**–**	(38)
Exchange differences reclassified to profit or loss on de-registration of subsidiaries		**–**	177
Exchange differences on translating foreign operations		**(1,653)**	(5,669)
		(1,653)	(5,530)
Other comprehensive income for the year, net of tax		**(823)**	(5,530)
Total comprehensive income for the year		**(63,237)**	(11,196)

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
(Loss)/profit for the year attributable to:			
Owners of the Company		**(56,688)**	15,738
Non-controlling interests		**(5,726)**	(21,404)
		(62,414)	(5,666)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(57,784)**	9,945
Non-controlling interests		**(5,453)**	(21,141)
		(63,237)	(11,196)
(LOSS)/EARNINGS PER SHARE			
Basic (cents)	*18(a)*	**(1.17)**	0.33
Diluted (cents)	*18(b)*	**(1.17)**	0.33

Consolidated Statement of Financial Position

At 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	19	**7,060**	8,793
Investment properties	20	**55,800**	56,600
Construction in progress	21	**–**	13
Prepaid land lease payments	22	**2,006**	2,062
Goodwill	23	**11,451**	59,883
Intangible assets	24	**33,461**	40,166
Investment in an associate	26	**2,871**	3,047
Available-for-sale financial assets	27	**–**	1,800
Financial assets at FVTOCI	27	**–**	–
		112,649	172,364
Current assets			
Prepaid land lease payments	22	**56**	56
Other investments	28	**–**	1,000
Inventories	29	**1,847**	1,857
Trade and other receivables	30	**10,193**	49,488
Due from related parties	45(c)	**86**	744
Due from non-controlling interest	34	**33**	20
Pledged bank deposits	31	**–**	19
Cash and cash equivalents	31	**252,459**	20,532
		264,674	73,716
Current liabilities			
Trade and other payables	32	**23,356**	25,460
Contract liabilities		**242**	–
Contingent shares payables	36	**–**	5,941
Due to directors	34	**33**	96
Due to related parties	45(c)	**5,964**	5,487
Bank loans	35	**9,000**	10,500
Current tax liabilities		**598**	4,578
		39,193	52,062
Net current assets		**225,481**	21,654
Total assets less current liabilities		**338,130**	194,018

At 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Contingent shares payables	*36*	–	20,547
Deferred tax liabilities	*37*	**21,070**	22,991
		21,070	43,538
NET ASSETS		**317,060**	150,480
Capital and reserves			
Share capital	*38*	**252,439**	214,067
Reserves	*40(a)*	**23,279**	(111,296)
Equity attributable to owners of the Company		**275,718**	102,771
Non-controlling interests		**41,342**	47,709
TOTAL EQUITY		**317,060**	150,480

Approved by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Yang Xin Min
Director

Yang Zhen
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital RMB'000 *(note 38)*	**Share premium account RMB'000** *(note 40 (b)(i))*	**Statutory reserve RMB'000** *(note 40 (b)(ii))*	**Foreign currency translation reserve RMB'000** *(note 40 (b)(iii))*	**Capital reserve RMB'000** *(note 40 (b)(iv))*	**Other reserve RMB'000** *(note 40 (b)(v))*	**Financial assets at FVTOCI reserve RMB'000** *(note 40) (b)(vi))*	**Accumulated losses RMB'000**	**Total RMB'000**	**Non-controlling interests ("NCI") RMB'000**	**Total RMB'000**
At 1 January 2017	214,067	1,075,224	172	(93,934)	(9,619)	(8,385)	–	(1,085,232)	92,293	45,194	137,487
Total comprehensive income for the year	–	–	–	(5,793)	–	–	–	15,738	9,945	(21,141)	(11,196)
Disposal of subsidiaries *(note 41(a))*	–	–	–	–	–	–	–	–	–	(182)	(182)
Acquisition of subsidiaries *(note 41(b))*	–	–	–	–	–	–	–	–	–	23,985	23,985
Deemed acquisition of NCI	–	–	–	–	–	–	–	518	518	(518)	–
Change of NCI without change in control	–	–	–	–	–	–	–	–	–	86	86
Contribution by NCI	–	–	–	–	–	–	–	15	15	285	300
Changes in equity for the year	–	–	–	(5,793)	–	–	–	16,271	10,478	2,515	12,993
At 31 December 2017 and 1 January 2018	214,067	1,075,224	172	(99,727)	(9,619)	(8,385)	–	(1,068,961)	102,771	47,709	150,480
Reclassify non-trading equity investment from available-for-sale financial assets to financial assets at FVTOCI	–	–	–	–	–	–	(2,108)	2,108	–	–	–
Additional impairment losses for trade and other receivables	–	–	–	–	–	–	–	(1,609)	(1,609)	(914)	(2,523)
Adjustments on initial application of IFRS 9 *(note 3)*	–	–	–	–	–	–	(2,108)	499	(1,609)	(914)	(2,523)
Restated balance at 1 January 2018	214,067	1,075,224	172	(99,727)	(9,619)	(8,385)	(2,108)	(1,068,462)	101,162	46,795	147,957
Total comprehensive income for the year	**–**	**–**	**–**	**(1,544)**	**–**	**–**	**448**	**(56,688)**	**(57,784)**	**(5,453)**	**(63,237)**
Issue of new shares upon consideration shares granted *(note 36)*	**2,554**	**2,860**	**–**	**–**	**–**	**–**	**–**	**–**	**5,414**	**–**	**5,414**
Issue of new shares upon placement *(note 38(b))*	**35,818**	**191,108**	**–**	**–**	**–**	**–**	**–**	**–**	**226,926**	**–**	**226,926**
Realisation of reserve upon disposal of a financial assets at FVTOCI	**–**	**–**	**–**	**–**	**–**	**–**	**(340)**	**340**	**–**	**–**	**–**
Changes in equity for the year	**38,372**	**193,968**	**–**	**(1,544)**	**–**	**–**	**108**	**(56,348)**	**174,556**	**(5,453)**	**169,103**
At 31 December 2018	**252,439**	**1,269,192**	**172**	**(101,271)**	**(9,619)**	**(8,385)**	**(2,000)**	**(1,124,810)**	**275,718**	**41,342**	**317,060**

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	**2018 RMB'000**	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(64,335)**	(926)
Adjustments for:			
Depreciation		**1,819**	2,341
Amortisation of prepaid land lease payments		**56**	56
Amortisation of intangible assets		**6,705**	12,144
Interest income		**(223)**	(36)
Interest expenses on bank loans wholly repayable within five years		**533**	792
Allowance for inventories		**–**	764
Reversal of allowance for trade receivables		**(1,734)**	(45)
Reversal of allowance for other receivables		**(681)**	–
Allowance for trade receivables		**–**	462
Impairment loss on other receivables		**11,644**	158
Impairment loss on intangible assets		**–**	23,760
Impairment loss on goodwill		**48,432**	5,695
Write-off of construction in progress		**12**	–
Write-off of property, plant and equipment		**–**	645
Write-off of intangible assets		**–**	3,000
Write-off of other receivables		**–**	59
Write-back of other payables		**–**	(23,443)
Change in fair value of investment properties		**800**	(2,600)
Change in fair value of contingent share payable		**(21,359)**	–
Share of result of an associate		**176**	433
(Gain)/loss on disposal of property, plant and equipment		**(80)**	73
Gain on disposal of construction in progress		**(3)**	–
Gain on disposal of subsidiaries		**–**	(3,959)
Loss on de-registration of subsidiaries		**–**	378
Provision for capital gain tax		**566**	5,581
Reversal of provision for onerous contracts		**–**	(50,575)
Operating loss before working capital changes		**(17,672)**	(25,243)
Increase in inventories		**(28)**	(78)
Decrease in trade and other receivables		**27,543**	728
Increase in due from non-controlling interest		**(13)**	(20)
Decrease/(increase) in due from related parties		**658**	(744)
(Decrease)/increase in trade and other payables		**(2,670)**	999
Increase in contract liabilities		**242**	–
Decrease in due to directors		**(63)**	(152)
Increase in due to related parties		**277**	122
Cash generated from/(used in) operating activities		**8,274**	(24,388)
Income taxes (paid)/refund		**(3,980)**	19
Net cash generated from/(used in) operating activities		**4,294**	(24,369)

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in pledged bank deposits		**19**	573
Acquisition of subsidiaries, net of cash acquired	*41(b)*	**–**	(48,987)
Receipt of other investments		**–**	4,013
Receipt of financial assets at fair value through profit or loss ("**FVTPL**")		**3,468**	–
Purchase of other investments		**–**	(1,000)
Purchase of financial assets at FVTPL		**(2,300)**	–
Purchase of available-for-sale financial assets		**–**	(1,800)
Disposals of subsidiaries, net of cash	*41(a)*	**–**	3,412
Purchases of property, plant and equipment		**(114)**	(1,068)
Proceeds from disposal of construction in progress		**4**	–
Proceeds from disposal of property, plant and equipment		**119**	38
Proceeds from disposal of financial assets at FVTOCI		**2,630**	–
Payment for construction in progress		**–**	(13)
Bank interests received		**55**	23
Net cash generated from/(used in) investing activities		**3,881**	(44,809)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(14,500)**	(15,000)
Bank loans raised		**13,000**	10,500
Contribution by non-controlling interest		**–**	300
Proceeds from issue of shares, net		**226,926**	–
Due to related parties		**200**	500
Interests and other finance cost paid		**(533)**	(792)
Net cash generated from/(used in) financing activities		**225,093**	(4,492)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**233,268**	(73,670)
Effect of foreign exchange rate changes		**(1,341)**	(5,751)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**20,532**	99,953
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**252,459**	20,532
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	*31*	**252,459**	20,532

1. General Information

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

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

In the opinion of the directors of the Company, as at 31 December 2018, Mr. Yang Xin Min is the ultimate controlling party of the Company.

2. Basis Of Preparation

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

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

3. Adoption Of New And Revised International Financial Reporting Standards

(a) Application of new and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) IFRS 9 Financial Instruments; and

(ii) IFRS 15 Revenue from Contracts with Customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

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

IFRS 9 Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

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

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

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

- those to be measured subsequently at FVTOCI or FVTPL; and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

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

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

IFRS 9 Financial instruments (Continued)

(b) Measurement

At initial recognition, the Group measures financial assets at its fair value plus, in the case of a financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

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

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(c) Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses ("**ECL**") associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

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

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

IFRS 9 Financial instruments (Continued)

Set out below is the impact of the adoption of IFRS 9 on the Group.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	*Note*	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 RMB'000	Carrying amount under IFRS 9 RMB'000
Equity investments	*(a)*	Available-for-sale	FVTOCI	1,800	1,800
Trade and other receivables	*(b)*	Loans and receivables	Amortised cost	49,488	46,965
Other investments		Available-for-sale	FVTPL	1,000	1,000

The following table summarises the impact on the Group's opening accumulated losses as at 1 January 2018 is as follows:

	Note	RMB'000
Reclassify non-trading equity investment from available-for-sale financial assets to financial assets at FVTOCI	*(a)*	2,108
Increase in impairment losses for trade and other receivables	*(b)*	(2,523)
Total impact on opening accumulated losses on 1 January 2018 – IFRS 9		(415)
Attributable to:		
Owners of the Company		499
Non-controlling interests		(914)
		(415)

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

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

IFRS 9 Financial instruments (Continued)

The impact of these changes on the Group's equity is as follows:

	Note	Effect on Financial assets at FVTOCI reserve RMB'000	Effect on accumulated losses RMB'000
Opening balance – IAS 39		–	(1,068,961)
Reclassify non-trading equity investments from available-for-sale financial assets to financial assets at FVTOCI	*(a)*	(2,108)	2,108
Opening balance – IFRS 9		(2,108)	(1,066,853)

The effect on accumulated losses is before adjustment for impairment (see below).

Note:

(a) Equity investments represent investments that the Group intends to hold for the long term. The Group elected to present in other comprehensive income changes in the fair value of these investments because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB1,800,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI and impairment losses of approximately RMB2,108,000 that previously charged to profit or loss (i.e. accumulated losses) was adjusted from accumulated losses to FVTOCI reserve on 1 January 2018. Unlike IAS 39, the accumulated reserve related to these investments will never be reclassified to profit or loss.

(b) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of RMB1,768,000 and RMB755,000 in the allowance for impairment of the trade receivables and other receivables were recognised in opening accumulated losses (i.e. totalling RMB2,523,000) at 1 January 2018 on transition to IFRS 9 respectively.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

Except for other investments, the Group did not designate or de-recognise any financial assets or financial liabilities at FVTPL at 1 January 2018.

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

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

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

The adoption of IFRS 15 resulted in the following major changes to the Group's accounting policies.

(i) Sales of merchandises

Revenue from the sale of merchandises is recognised when control of the goods has transferred, being when the goods have been delivered to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods.

A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

(ii) Commission income

Commission income is recognised as a net basis when the Group transfer the control of service over time (over the service period).

(iii) Sales of hardware and software and installation service

Revenue from the sale of hardware and software and installation service is recognised when control of the goods and services have been transferred, being the point in time when the hardware and software have been successfully installed at client location.

(iv) Other IT support service and other service income

Revenue from provision of IT support and other services are recognised when the Group transfer the control of service over time (over the service period).

The directors of the Company assessed and considered that no material impact on the Group's opening accumulated losses and financial position by the application of IFRS 15 as compared to IAS 18, IAS 11 and related interpretation that was previously in effect before the adoption of IFRS 15. The Group recognised its contract liabilities under trade and other payables as receipt in advance from customers at 1 January 2018.

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

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

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019

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

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

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

IFRS 16 Leases

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

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

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

As disclosed in note 42, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to RMB2,939,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

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

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation of IAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. Significant Accounting Policies

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

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

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

(a) Consolidation

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

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

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

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

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

(b) Business combination and goodwill

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(c) Associates

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(d) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

(iii) Translation on consolidation

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

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

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

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

4. Significant Accounting Policies (Continued)

(d) Foreign currency translation (Continued)

(iii) Translation on consolidation (Continued)

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

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

(e) Property, plant and equipment

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

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

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(f) Investment properties

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

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

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

(g) Operating leases

(i) The Group as lessee

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

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

(ii) The Group as lessor

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

(h) Research and development expenditure

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

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

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

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

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

4. Significant Accounting Policies (Continued)

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

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

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

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

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

Both the period and method of amortisation are reviewed annually.

(j) Inventories

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

(k) Contract liabilities

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

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

4. Significant Accounting Policies (Continued)

(l) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group's 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 FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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.

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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(m) Financial assets

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. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

4. Significant Accounting Policies (Continued)

(m) Financial assets (Continued)

Equity investments (Continued)

Policy prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVTPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost.

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(n) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(o) Cash and cash equivalents

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

(p) Financial liabilities and equity instruments

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

4. Significant Accounting Policies (Continued)

(q) Borrowings

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

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

(r) Trade and other payables

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

(s) Contingent shares payables

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

(t) Equity instruments

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

(u) Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sale of merchandises is recognised when control of the goods has transferred, being when the goods have been delivered to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Commission income is recognised when the control of services is delivered, the revenue and cost can be measured reliably, and have right to receive as income.

Revenue from sales of hardware and software and installation service is recognised when the control of goods and services have been transferred to customer upon completion of installation. A receivable is recognised by the Group when the hardware being delivered or/and software being installed at customers' location as this presents the point in time at which the right to consideration becomes uncondition, as only the passage of time is required before payment is due.

4. Significant Accounting Policies (Continued)

(u) Revenue recognition (Continued)

Other IT support service and other service income is recognised when the services are rendered.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

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

Policy prior to 1 January 2018

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group when specific criteria have been met for each of the Group's activities.

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

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

Service fee income is recognised when the services are rendered.

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

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

(v) Employee benefits

(i) Employee leaves entitlements

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

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

(ii) Pension obligations

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

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

4. Significant Accounting Policies (Continued)

(v) Employee benefits (Continued)

(iii) Termination benefits

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

(w) Borrowing costs

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

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

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

(x) Government grants

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

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

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

4. Significant Accounting Policies (Continued)

(y) Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(z) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or that are not yet available for use are reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

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

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

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

(aa) Impairment of financial assets

The Group recognises a loss allowance for ECL on trade and other receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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

4. Significant Accounting Policies (Continued)

(aa) Impairment of financial assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— significant deterioration in external market indicators of credit risk for a particular financial instrument;

— existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

— an actual or expected significant deterioration in the operating results of the debtor;

— significant increases in credit risk on other financial instruments of the same debtor;

— an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

(i) The financial instrument has a low risk of default;

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

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

4. Significant Accounting Policies (Continued)

(aa) Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

— when there is a breach of financial covenants by the counterparty; or

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

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

Credit-impaired financial assets

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

— significant financial difficulty of the issuer or the counterparty;

— a breach of contract, such as a default or past due event;

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

— it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or The disappearance of an active market for that financial asset because of financial difficulties.

4. Significant Accounting Policies (Continued)

(aa) Impairment of financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Policy prior to 1 January 2018

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

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

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

4. Significant Accounting Policies (Continued)

(aa) Impairment of financial assets (Continued)

Measurement and recognition of ECL (Continued)

Policy prior to 1 January 2018 (Continued)

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

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

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

(ab) Provisions and contingent liabilities

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

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

(ac) Events after the reporting period

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

5. Critical Judgement And Key Estimates

(i) Critical judgement in applying accounting policies

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

(a) Contingent Liabilities

As described in note 46 to the consolidated financial statements, the Company acquired 51% equity interest in LCE Group Limited ("**LCE Group**") and its subsidiaries (the "**LCE Group**") during the year. Neither the Company nor the vendor has reported the transaction to the relevant tax authority. The tax authorities however could impose penalty on unpaid enterprise income tax ("**EIT**") according to the relevant PRC laws and regulations. The directors, after consulting the Group's PRC legal counsel, are of opinion that a provision of RMB6,467,000 calculated based on the consideration paid to the vendor as of 31 December 2018 should be made, and considered that the risk of having a penalty imposed by the PRC tax authorities is reasonably low. The penalty was disclosed as contingent liabilities.

(b) Deferred tax for investment properties

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

(c) Business model assessment

Classification and measurement of financial assets depends on the results of the solely payments of principal and interest and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or FVTOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

5. Critical Judgement And Key Estimates (Continued)

(i) Critical judgement in applying accounting policies (Continued)

(d) Significant increase in credit risk

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

(ii) Key sources of estimation uncertainty

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

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

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

The Group assesses whether property, plant and equipment and construction in progress have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment and construction in progress have been determined based on value-in-use calculations of each CGU the property, plant and equipment and construction in progress belonged, which requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. No impairment loss was recognised for the year ended 31 December 2018 as the recoverable amount exceeded the carrying amount of the property, plant and equipment of the CGUs belonged.

The carrying amount of property, plant and equipment and construction in progress as at 31 December 2018 was RMB7,060,000 (2017: RMB8,793,000) and nil (2017: RMB13,000) respectively.

(b) Income taxes

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

During the year, RMB1,921,000 of income tax was credited (2017: RMB4,740,000 charged) to profit or loss based on the estimated assessable profit.

5. Critical Judgement And Key Estimates (Continued)

(ii) Key sources of estimation uncertainty (Continued)

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the CGU to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Changes in assumptions and estimates used may have a significant effect on the consolidated income statement and consolidated financial position.

The carrying amount of goodwill at 31 December 2018 was approximately RMB11,451,000 (2017: RMB59,883,000) after an impairment loss of RMB48,432,000 was recognised during the year in relation to the CGU of E-commerce solutions segment (2017: RMB5,695,000 software development CGU). Details of the impairment loss calculation are provided in note 23(a) to the consolidated financial statements.

(d) Fair values of investment properties

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

The carrying amount of investment properties as at 31 December 2018 was RMB55,800,000 (2017: RMB56,600,000) after recognition of the fair value loss of RMB800,000 (2017: fair value gain of RMB2,600,000) to the profit or loss during the year.

(e) Amortisation and impairment on intangible assets

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

No impairment loss was recognised for the year ended 31 December 2018 (2017: RMB23,760,000). The carrying amount of intangible assets as at 31 December 2018 was RMB33,461,000 (2017: RMB40,166,000).

5. Critical Judgement And Key Estimates (Continued)

(ii) Key sources of estimation uncertainty (Continued)

(f) Impairment of trade receivables

Prior to the adoption of IFRS 9 on 1 January 2018, the management of the Group assesses at the end of each reporting period whether there is any objective evidence that trade receivables are impaired. The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2017, the carrying amount of trade receivables is RMB21,911,000 (net of allowance for doubtful debts of RMB913,000).

Since the adoption of IFRS 9 on 1 January 2018, the management of the Group estimates the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of trade receivables is RMB2,093,000 (net of allowance for doubtful debts of RMB560,000).

(g) Allowance for slow-moving inventories

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

At 31 December 2018, no allowance for slow-moving inventories was recognised in profit or loss (2017: RMB764,000). The accumulated allowance for slow-moving inventories as at 31 December 2018 was RMB948,000 (2017: RMB949,000).

6. Financial Risk Management

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

(a) Foreign currency risk

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

At 31 December 2018, if the RMB had weakened 5 per cent against the HK$ with all other variables held constant, consolidated loss after tax for the year would have been RMB323,000 lower (2017: RMB254,000 higher, arising mainly as a result of the foreign exchange difference on bank and cash balances denominated in HK$. If the RMB had strengthened 5 per cent against the HK$ with all other variables held constant, consolidated loss after tax for the year would have been RMB323,000 higher (2017: RMB254,000 lower), arising mainly as a result of the foreign exchange difference on bank and cash balances denominated in HK$.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

6. Financial Risk Management (Continued)

(b) Credit risk (Continued)

Trade receivables (Continued)

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

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

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	8.09%	1,991	(161)
Up to 3 months past due	22.2%	180	(40)
3 to 6 months past due	0%	–	–
6 months to 1 year past due	71.8%	195	(140)
Over 1 year past due	76.3%	287	(219)
		2,653	(560)

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

Prior to 1 January 2018

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, trade receivables of RMB913,000 was determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	17,872
Up to 3 months	4,010
3–6 months	13
6 months to 1 year	16
	21,911

6. Financial Risk Management (Continued)

(b) Credit risk (Continued)

Trade receivables (Continued)

Prior to 1 January 2018 (Continued)

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

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

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

	2018 RMB'000	2017 RMB'000
At 31 December under IAS 39	**913**	770
Impact on initial application of IFRS 9 *(note 3)*	**1,768**	–
Adjusted balance at 1 January	**2,681**	770
Acquisition of subsidiaries	**–**	50
Impairment losses recognised for the year	**–**	462
Amounts written off during the year	**(387)**	(324)
Reversals	**(1,734)**	(45)
At 31 December	**560**	913

The following significant changes in the gross carrying amounts of trade receivables contributed to the decrease in the loss allowance during 2018:

— settlement made by trade receivables recognised as at 31 December 2017;

— a write-off of trade receivables with aggregate gross carrying amount of RMB387,000; and

— decrease in new trade receivables balance as at 31 December 2018.

Financial assets at amortised cost

All of the Group's financial assets at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12-month expected losses.

Financial assets at amortised cost include deposit and other receivables.

6. Financial Risk Management (Continued)

(b) Credit risk (Continued)

Financial assets at amortised cost (Continued)

The loss allowance for financial assets at amortised cost as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing allowance as at 31 December 2018 as follows:

	Deposits RMB'000	Other receivables RMB'000	Total RMB'000
At 31 December 2017 under IAS 39	116	42	158
Impact on initial application of IFRS 9 *(note 3)*	216	539	755
Adjusted balance at 1 January 2018	332	581	913
Amount written off during the year	(116)	(42)	(158)
Reversal of impairment losses recognised for the year	(174)	(507)	(681)
At 31 December 2018	42	32	74

(c) Liquidity risk

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

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

	The Group			
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At 31 December 2018				
Trade and other payables	23,356	–	–	23,356
Due to directors	33	–	–	33
Due to related companies	5,999	–	–	5,999
Bank loans	9,252	–	–	9,252
At 31 December 2017				
Trade and other payables	25,460	–	–	25,460
Due to directors	96	–	–	96
Due to related companies	5,510	–	–	5,510
Bank loans	10,756	–	–	10,756
Contingent shares payables	5,941	8,471	12,076	26,488

6. Financial Risk Management (Continued)

(d) Interest rate risk

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

At 31 December 2018, if interest rates at that date had been 25 basis points (2017: 100 basis points) higher/lower with all other variables held constant, consolidated loss after tax for the year would have been RMB621,000 lower/higher (2017: RMB60,000 lower/higher), arising mainly as a result of higher/lower interest income/expenses on bank interest-bearing deposits and bank loans.

Other than the bank balances and a bank loan as mentioned above, the Group's deposits at current accounts, other investments, due to a related party and another short-term bank loan bear interest at fixed interest rates and therefore are subject to fair value interest rate risks.

(e) Categories of financial instruments at 31 December:

	2018 RMB'000	2017 RMB'000
Financial assets:		
Financial assets measured at amortised cost	261,695	–
Loans and receivables (including cash and cash equivalents)	–	57,814
Available-for-sale financial assets	–	1,800
Financial liabilities:		
Financial liabilities at amortised cost	38,353	40,810
Contingent shares payables	–	26,488

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. Fair Value Measurements

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

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

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

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

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

(a) Disclosure of level in fair value hierarchy:

	Fair value measurements as at 31 December 2018 using:			
Description	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Recurring fair value measurement:				
Investment properties				
— Commercial PRC *(note 20)*	**–**	**–**	**55,800**	**55,800**
Financial liabilities				
— Contingent shares payables *(note 36)*	**–**	**–**	**–**	**–**

	Fair value measurements as at 31 December 2017 using:			
Description	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurement:				
Investment properties				
— Commercial PRC *(note 20)*	–	–	56,600	56,600
Financial liabilities				
— Contingent shares payables *(note 36)*	–	–	26,488	26,488

7. Fair Value Measurements (Continued)

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

Description	Assets/(liabilities) at fair value through profit or loss		
	Investment properties RMB'000	Contingent shares payables RMB'000	2018 Total RMB'000
At 1 January 2018	**56,600**	**(26,488)**	**30,112**
Shares issued upon fulfilment of profits target	**–**	**5,414**	**5,414**
Exchange difference	**–**	**(285)**	**(285)**
Total gains or losses recognised in profit or loss (#)	**(800)**	**21,359**	**20,559**
At 31 December 2018	**55,800**	**–**	**55,800**
(#) Include gains or losses for assets held at end of reporting period	**(800)**	**21,359**	**20,559**
At 1 January 2017	54,000	–	54,000
Contingent shares granted upon acquisition of subsidiaries *(note 41(b))*	–	(26,488)	(26,488)
Total gains or losses recognised in profit or loss (#)	2,600	–	2,600
At 31 December 2017	56,600	(26,488)	30,112
(#) Include gains or losses for assets held at end of reporting period	2,600	–	2,600

The total gains or losses recognised in profit or loss including those assets and liabilities at end of reporting period are presented in the face (2017: face) of the consolidated statement of profit or loss and other comprehensive income.

7. Fair Value Measurements (Continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018:

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

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

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2018 RMB'000 asset/ (liabilities)	Fair value 2017 RMB'000 asset/ (liabilities)
Investment properties — Commercial PRC	Income capitalisation approach	Yield	4%–6% (2017: 4%–6%)	Higher of the yield, lower of fair value	**55,800**	56,600
		Market rent	Monthly office rental RMB42/sq.m. (2017: RMB40/sq.m.)	Higher of the market rent, higher of fair value		
			Monthly car-park space RMB150–250 /unit (2017: RMB 150–250/ unit)			
Contingent shares payables	Weighted–average probability approach	Probability–adjusted profits	RMB14.9 million to RMB40.3 million	Higher of the net profit, higher of the fair value	**–**	(26,488)
Financial assets at FVTOCI	Guideline public company method	Discount for lack of Marketability ("**DLOM**")	15%	Higher of DLOM, lower of the fair value	**–**	–

8. Revenue

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service line for the year is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
Sale of merchandises	2,407	–
Commission income	10,961	1,204
Sales of hardware and software and installation service	3,531	10,234
Other IT support service	369	3,124
Other service income	88	1,131
	17,356	15,693

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major products or service lines and geographical regions:

	Sales of merchandises		Commission income		Sales of hardware and software and installation service		Other IT support service		Other service income		Total	
For the year ended 31 December	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Primary geographical markets												
Hong Kong	–	–	2,025	1,204	–	215	266	568	–	–	2,291	1,987
PRC except Hong Kong	2,407	–	8,936	–	3,531	10,019	103	2,556	88	1,131	15,065	13,706
Revenue from external customers	2,407	–	10,961	1,204	3,531	10,234	369	3,124	88	1,131	17,356	15,693
Timing of revenue recognition												
Goods and services transferred at a point in time	2,407	–	–	–	3,531	10,234	–	–	–	–	5,938	10,234
Services transferred over time	–	–	10,961	1,204	–	–	369	3,124	88	1,131	11,418	5,459
Total	2,407	–	10,961	1,204	3,531	10,234	369	3,124	88	1,131	17,356	15,693

The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11. The comparative information has been re-presented upon adoption of IFRS 15.

9. Other Income

	2018 RMB'000	2017 RMB'000
Bank interest income	**55**	23
Interest on other investments	**168**	13
Government grants *(note)*	**1,279**	1,304
Gross rental income from investment properties	**2,898**	2,782
Property management fee and related income	**1,735**	1,254
Value-added tax refund	**360**	525
Gain on disposal of property, plant and equipment	**80**	–
Gain on disposal of construction in progress	**3**	–
Others	**401**	820
	6,979	6,721

Note:

The government grants represented government subsidy granted to enterprise, who had fulfilled certain requirements such as engaging in research and development activities, paying value-added tax ("**VAT**") and EIT in previous years, by the local government that the subsidiaries operate.

10. Segment Information

The Group has three (2017: three) reportable segments as follows:

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

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

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

E-commerce solutions segment is attributable to the LCE Group.

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

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

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

10. Segment Information (Continued)

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

	O2O solutions segment		IDM solutions segment		E-commerce solutions segment		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Year ended 31 December								
Revenue from external customers	**3,900**	13,358	**2,113**	2,335	**11,343**	–	**17,356**	15,693
Segment (loss)/profit	**(5,514)**	(50,388)	**(14,978)**	60,427	**(55,838)**	–	**(76,330)**	10,039
Interest revenue	**7**	12	**4**	10	**34**	–	**45**	22
Interest expense	**533**	792	**–**	–	**–**	–	**533**	792
Depreciation and amortisation	**1,030**	13,686	**713**	704	**6,781**	–	**8,524**	14,390
Share of result of an associate	**–**	–	**(176)**	(433)	**–**	–	**(176)**	(433)
Income tax (credit)/expense	**(251)**	4,740	**–**	–	**(1,670)**	–	**(1,921)**	4,740
Write-back of other payables	**–**	–	**–**	23,443	**–**	–	**–**	23,443
Reversal of provision for onerous contract	**–**	–	**–**	50,575	**–**	–	**–**	50,575
Reversal of allowance for trade receivables	**211**	45	**21**	–	**1,502**	–	**1,734**	45
Reversal of allowance for other receivables	**27**	–	**483**	–	**171**	–	**681**	–
Impairment loss on goodwill	**–**	5,695	**–**	–	**48,432**	–	**48,432**	5,695
Impairment loss on intangible assets	**–**	23,760	**–**	–	**–**	–	**–**	23,760
Impairment loss on other receivables	**–**	–	**11,644**	–	**–**	–	**11,644**	–
Impairment loss on non-current assets	**–**	–	**12**	–	**–**	–	**12**	–
Additions to segment non-current assets	**35**	443	**67**	609	**12**	–	**114**	1,052
At 31 December								
Segment assets	**66,747**	76,471	**14,995**	30,125	**71,863**	135,623	**153,605**	242,219
Segment liabilities	**(24,694)**	(29,106)	**(5,980)**	(4,370)	**(20,782)**	(26,792)	**(51,456)**	(60,268)
Investment in an associate	**–**	–	**2,871**	3,047	**–**	–	**2,871**	3,047

10. Segment Information (Continued)

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

	2018 RMB'000	2017 RMB'000
Revenue		
Consolidated revenue	**17,356**	15,693
Profit or loss		
Total (loss)/profit of reportable segments	**(76,330)**	10,039
Unallocated amounts:		
Unallocated head office and corporate expenses	**(6,877)**	(10,124)
Fair value gain on contingent shares payables	**21,359**	–
Provision for capital gain tax	**(566)**	(5,581)
Consolidated loss for the year	**(62,414)**	(5,666)

Reconciliations of reportable segments assets and liabilities:

	2018 RMB'000	2017 RMB'000
Assets		
Total assets of reportable segments	**153,605**	242,219
Unallocated amounts:		
Unallocated head office and corporate assets	**223,718**	3,861
Consolidated total assets	**377,323**	246,080
Liabilities		
Total liabilities of reportable segments	**51,456**	60,268
Unallocated amounts:		
Contingent shares payables	**–**	26,488
Unallocated head office and corporate liabilities	**8,807**	8,844
Consolidated total liabilities	**60,263**	95,600

10. Segment Information (Continued)

(iii) Geographical information:

Revenue

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

	2018 RMB'000	2017 RMB'000
PRC except Hong Kong	15,065	13,706
Hong Kong	2,291	1,987
Consolidated total revenue	17,356	15,693

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

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

(iv) Revenue from major customers:

	2018 RMB'000	2017 RMB'000
Customer A	3,713	3,026
Customer B	2,988	2,190
Customer C	1,225	1,595
Customer D	1,031	1,492

Each of the major customers represents a single external customer whose sale transaction is generated from E-commerce solutions segment and O2O solutions segment of the Group (2017: Solely O2O solutions segment).

11. Finance Costs

	2018 RMB'000	2017 RMB'000
Interest expenses on bank loans wholly repayable within five years	533	792

12. Income Tax (Credit)/Expense

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

	2018 RMB'000	2017 RMB'000
Current tax — PRC EIT		
Provision for the year	**–**	1
Over-provision in prior year	**–**	(26)
	–	(25)
Deferred tax *(note 37)*		
Provision for the year	**(1,921)**	4,765
	(1,921)	4,765
Income tax (credit)/expense	**(1,921)**	4,740

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

No provision for Hong Kong profits tax has been made in the consolidated financial statements since the Group has sufficient tax loss brought forward to set off against the assessable profit for the year ended 31 December 2018 (2017: Nil).

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

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

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

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

	2018 **RMB'000**	2017 RMB'000
Loss before tax	**(64,335)**	(926)
Tax at the PRC EIT rate of 25% (2017: 25%)	**(16,084)**	(232)
Tax effect of income that is not taxable	**(4,134)**	(21,640)
Tax effect of expenses that are not deductible	**17,168**	12,732
Tax effect of temporary differences and tax losses not recognised	**1,978**	6,609
Tax effect of utilisation of tax losses not previously recognised	**172**	45
Over-provision in prior years	**–**	(26)
Increment in deferred taxes resulting from increment in tax rate *(note 37)*	**–**	5,557
Tax effect of different tax rates of subsidiaries	**(1,021)**	1,695
Income tax (credit)/expense	**(1,921)**	4,740

13. Loss For The Year

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

	2018 RMB'000	2017 RMB'000
Allowance for inventories#	**–**	764
Amortisation of prepaid land lease payments#	**56**	56
Auditor's remuneration#		
— Audit services		
— Current year	**1,099**	1,555
— Other services	**34**	1,253
	1,133	2,808
Cost of inventories sold	**1,958**	1,063
Direct operating expenses of investment properties that generate rental income#	**470**	1,206
(Gain)/loss on disposal of property, plant and equipment	**(80)**	73
Gain on disposal of construction in progress	**(3)**	–
Research and development costs#*	**1,625**	5,081
Write-off on construction in progress#	**12**	–
Write-off of intangible assets	**–**	3,000
Write-off of other receivable	**–**	59
Write-off of property, plant and equipment	**–**	645
Operating leases# charges in respect of		
— Office premises in Hong Kong	**873**	795
— Leasehold land in the PRC	**1,843**	1,742
— Others	**–**	84
	2,716	2,621

Included in other operating expenses.

* Research and development costs mainly consisted of staff cost which was excluded from employee benefit expenses as disclosed in the face of the consolidated financial statements.

14. Employee Benefits Expenses

	2018 RMB'000	2017 RMB'000
Staff costs (including directors' emoluments and amount classified as research and development cost)		
— Salaries, bonus and allowance	21,461	20,888
— Retirement benefit scheme contributions	1,884	1,744
— Severance payment	445	1,155
	23,790	23,787

The five highest paid individuals in the Group during the year included two (2017: three) directors whose emoluments are reflected in the analysis presented in note 15 to the consolidated financial statements. The emoluments of the remaining three (2017: two) individuals are set out below:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	2,262	1,495
Retirement benefit scheme contributions	101	62
	2,363	1,557

The emoluments fell within the following band:

	Number of individuals	
	2018	2017
Nil to HK$1,000,000 (equivalent to Nil to RMB846,000 (2017: Nil to RMB864,000))	2	1
HK$1,000,001 to HK$1,500,000 (equivalent to RMB846,001 to RMB1,268,000 (2017: RMB 864,001 to RMB1,296,000))	1	1

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

15. Benefits And Interests Of Directors

(a) Directors' emoluments

The remuneration of each director is set out below:

	For the year ended 31 December 2018			
Name of director	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors				
Mr. Yang Xin Min	–	1,353	–	1,353
Mr. Kwan Che Hang Jason (resigned on 1 June 2018)	63	523	10	596
Mr. Yang Zhen	–	609	15	624
	63	2,485	25	2,573
Independent Non-executive directors				
Dr. Cheng Faat Ting Gary	93	–	–	93
Mr. Poon Lai Yin Michael	85	–	–	85
Mr. Peng Bo Bo (appointed on 27 December 2018)	1	–	–	1
Mr. Yang Wei Qing (resigned on 14 November 2018)	74	–	–	74
	253	–	–	253
Total for 2018	316	2,485	25	2,826

15. Benefits And Interests Of Directors (Continued)

(a) Directors' emoluments (Continued)

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

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

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

16. Defined Contribution Retirement Plan

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

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

The Group's total contributions to these schemes charged to the profit or loss during the year ended 31 December 2018 amounted to approximately RMB1,884,000 (2017: RMB1,744,000) representing contributions paid and payable by the Group to the schemes at the appropriate rates set by the local government where the subsidiaries operate.

17. Dividends

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

18. (Loss)/Earnings Per Share

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB56,688,000 (2017: RMB15,378,000 profit) and the weighted average number of ordinary shares of 4,838,535,136 (2017: 4,762,033,424) in issue during the year.

(b) Diluted loss per share

No diluted loss per share for the year ended 31 December 2018 is presented as the Company had no potential ordinary shares outstanding.

The calculation of diluted earnings per share attributable to owners of the Company for the year ended 31 December 2017 was based on the profit for the year attributable to owners of the Company of approximately RMB15,738,000 and the weighted average number of ordinary shares of 4,765,035,165 arising from the effect of contingent shares payables.

For the year ended 31 December 2018

19. Property, Plant And Equipment

	Buildings and leasehold improvement RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
At 1 January 2017	9,647	50,292	1,800	61,739
Additions	421	64	583	1,068
Write-off	(1,310)	(41,204)	–	(42,514)
Disposals	–	(372)	–	(372)
Acquisition of subsidiaries *(note 41(b))*	–	166	–	166
Disposal of subsidiaries *(note 41(a))*	–	(286)	–	(286)
Exchange differences	(29)	(33)	–	(62)
At 31 December 2017 and 1 January 2018	**8,729**	**8,627**	**2,383**	**19,739**
Additions	**36**	**78**	**–**	**114**
Write-off	**(642)**	**(3,601)**	**–**	**(4,243)**
Disposals	**–**	**(498)**	**–**	**(498)**
Exchange differences	**7**	**26**	**–**	**33**
At 31 December 2018	**8,130**	**4,632**	**2,383**	**15,145**
Accumulated depreciation and impairment				
At 1 January 2017	2,697	47,775	539	51,011
Charge for the year	842	1,036	463	2,341
Write-back	(1,020)	(40,849)	–	(41,869)
Disposals	–	(261)	–	(261)
Disposal of subsidiaries *(note 41(a))*	–	(248)	–	(248)
Exchange differences	(12)	(16)	–	(28)
At 31 December 2017 and 1 January 2018	**2,507**	**7,437**	**1,002**	**10,946**
Charge for the year	**717**	**561**	**541**	**1,819**
Write-back	**(642)**	**(3,601)**	**–**	**(4,243)**
Disposals	**–**	**(459)**	**–**	**(459)**
Exchange differences	**5**	**17**	**–**	**22**
At 31 December 2018	**2,587**	**3,955**	**1,543**	**8,085**
Carrying amount				
At 31 December 2018	**5,543**	**677**	**840**	**7,060**
At 31 December 2017	6,222	1,190	1,381	8,793

Notes:

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

(b) At 31 December 2018, the carrying amount of the Group's property, plant and equipment pledged as security for the Group's bank loans of RMB9,000,000 (2017: RMB10,500,000) (note 35) amounted to approximately RMB5,248,000 (2017: RMB5,646,000).

20. Investment Properties

	2018 RMB'000	2017 RMB'000
At 1 January	56,600	54,000
Fair value (loss)/gain	(800)	2,600
At 31 December	55,800	56,600

The fair value of the Group's investment properties at 31 December 2018 and 2017 was valued on income capitalisation approach by taking into account the net rental income of the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease. The valuation was performed by Grant Sherman Appraisal Limited, an independent firm of chartered surveyors.

There was no change in the valuation approach for the years ended 31 December 2018 and 2017. The fair value of the Group's investment properties is within level 3 of the fair value hierarchy.

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

	2018 RMB'000	2017 RMB'000
The PRC:		
Medium-term lease	55,800	56,600

At 31 December 2018, the investment properties were pledged as security for the Group's bank loans of RMB9,000,000 (2017: RMB10,500,000) (note 35).

21. Construction In Progress

	RMB'000
Cost	
At 1 January 2017	1,030
Additions	13
Write-off	(65)
At 31 December 2017 and 1 January 2018	**978**
Disposal	**(1)**
At 31 December 2018	**977**
Accumulated impairment	
At 1 January 2017	(1,030)
Write-back	65
At 31 December 2017 and 1 January 2018	**(965)**
Write-off	**(12)**
At 31 December 2018	**(977)**
Carrying amount	
At 31 December 2018	**–**
At 31 December 2017	13

The Group's construction in progress comprises costs incurred on computer hardware, machinery and equipment pending installation. Since all projects from IDM solutions segment were terminated during 2018, all construction in progress was written off.

22. Prepaid Land Lease Payments

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

	2018 **RMB'000**	2017 RMB'000
At 1 January	**2,118**	2,174
Amortisation for the year	**(56)**	(56)
At 31 December	**2,062**	2,118
Current portion	**(56)**	(56)
Non-current portion	**2,006**	2,062

As at 31 December 2018, the Group's leasehold properties are located in the PRC under medium-lease of fifty years.

As at 31 December 2018, the prepaid land lease payments were pledged as security for the Group's bank loans of RMB9,000,000 (2017: RMB10,500,000) (note 35).

23. Goodwill

	E-commerce solutions segment RMB'000 *(note (a))*	O2O solutions segment Software development RMB'000 *(note (b))*	O2O solutions segment Hardware installation RMB'000 *(note (b))*	Total RMB'000
Cost				
At 1 January 2017	–	56,093	1,246	57,339
Acquisition of subsidiaries *(note 41(b))*	59,883	–	–	59,883
At 31 December 2017, 1 January 2018 and 31 December 2018	**59,883**	**56,093**	**1,246**	**117,222**
Accumulated impairment losses				
At 1 January 2017	–	50,398	1,246	51,644
Impairment loss	–	5,695	–	5,695
At 31 December 2017 and 1 January 2018	**–**	**56,093**	**1,246**	**57,339**
Impairment loss	**48,432**	**–**	**–**	**48,432**
At 31 December 2018	**48,432**	**56,093**	**1,246**	**105,771**
Carrying amount				
At 31 December 2018	**11,451**	**–**	**–**	**11,451**
At 31 December 2017	59,883	–	–	59,883

23. Goodwill (Continued)

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

Notes:

(a) The Group acquired 51% of the equity interest in the LCE Group as disclosed in note 41(b) to the consolidated financial statements. The goodwill arising from the acquisition is wholly allocated to CGU of E-commerce solutions operations.

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2017: 3%). This rate does not exceed the average long-term growth rate for the relevant markets. The pre-tax rates used to discount the forecast cash flows is 24.4% (2017: 25.2%). Before impairment testing, the carrying amount of goodwill allocated to CGU of E-commerce solutions was RMB59,889,000. The recoverable amount of the CGU was approximately RMB54,024,000 which was below the carrying amount of the CGU of which the assets belong, an impairment loss of RMB48,432,000 was recognised on goodwill for the year ended 31 December 2018.

Impairment loss was mainly caused by decrease in commission income which was significantly affected by following adverse circumstances in 2018. The directors revised forecasts downwards in light of the following events and conditions:

— market demand for branded goods decreased in 2018 as certain brand partners reduced investment in brand promotion on branded goods in the PRC and emerge of new social media which has driven customers to spend less time on traditional e-commerce channels;

— certain brand partners did not renew their agency agreements with the LCE Group as they at that time had not yet developed marketing channel on certain newly emerged social media the branded partners specifically requested.

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

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

The Group prepared cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% in 2017. This rate did not exceed the average long-term growth rate for the relevant markets. The rates used to discount the forecast cash flows from the Group's software development activities was 19.4% for the year ended 31 December 2017. The amount was fully impaired in 2017.

Before impairment testing, the carrying amount of goodwill allocated to CGU of software development within the O2O solutions segment was RMB5,695,000. The recoverable amount of this CGU was below the carrying amount of the CGU of which the assets belong. The recoverable amount of the CGU was approximately RMB1,438,000 which was attributable to the unpredictability of income generated from the O2O solutions segment due to the keen market competition. Therefore, an impairment loss of RMB5,695,000 and RMB23,760,000 were recognised on goodwill and software development cost (note 24) respectively for the year ended 31 December 2017. The situation in 2018 has still not yet been improved. The decrease in customers' demand due to the PRC's economic downturn threatened the revenue generated from the CGU of software development. Hence, the recoverable amount of the CGU of software development was still below the carrying amount of the assets belong. No reversal of impairment on software development cost was required in 2018.

24. Intangible Assets

	Software development costs RMB'000 *(note (a))*	Customer relationship RMB'000 *(note (b))*	Computer Software RMB'000 *(note (c))*	Total RMB'000
Cost				
At 1 January 2017	58,897	–	–	58,897
Acquisition of subsidiaries *(note 41(b))*	–	40,076	90	40,166
Write-off	(3,125)	–	–	(3,125)
Disposal of subsidiaries	(20)	–	–	(20)
At 31 December 2017, 1 January 2018 and 31 December 2018	**55,752**	**40,076**	**90**	**95,918**
Accumulated amortisation and impairment losses				
At 1 January 2017	19,977	–	–	19,977
Amortisation for the year	12,144	–	–	12,144
Write-off	(125)	–	–	(125)
Disposal of subsidiaries	(4)	–	–	(4)
Impairment losses *(note 23(b))*	23,760	–	–	23,760
At 31 December 2017 and 1 January 2018	**55,752**	**–**	**–**	**55,752**
Amortisation for the year	**–**	**6,679**	**26**	**6,705**
At 31 December 2018	**55,752**	**6,679**	**26**	**62,457**
Carrying amount				
At 31 December 2018	**–**	**33,397**	**64**	**33,461**
At 31 December 2017	–	40,076	90	40,166

Notes:

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

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

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

25. Investments In Subsidiaries

Particulars of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued capital/ registered capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities
Virtual City Limited	BVI	US$11,000	55.45%	–	Investment holding
Smartac Group Limited	HK	HK$14,450,001	–	100%	Investment holding
Smartac International Limited	HK	HK$1	–	100%	Investment holding
Smartac Asia Limited	HK	HK$1,000	–	100%	Provision of communication system installation and system integration business
Smartac Intelligent Systems Macau Limited	Macau	MOP100,000	–	100%	Inactive
Korea Accelerator Incorporated	Korea	KRW500,000,000	–	100%	Inactive
Cloutac Networks Limited	HK	HK$1,160,000	–	51%	Investment holding
托雲網絡科技(上海)有限公司* (Cloutac Networks Limited)#	The PRC	HK$1,000,000	–	100%	Inactive
蘇州樂逛智能科技有限公司 (ShopperConnect (Suzhou) Limited)#	The PRC	RMB2,000,000	–	85%	Software development
Smartac China Limited	HK	HK$15,612,500	–	100%	Investment holding
盈聯卡內基信息科技(蘇州)有限公司* (PCS Carnegie Technology (Suzhou) Limited)#	The PRC	US$3,310,000	–	100%	Investment holding
蘇州盈聯智能科技股份有限公司 (Smartac Solutions (Suzhou) Ltd.)#	The PRC	RMB34,800,000	–	97.27%	Software development
Tosun Limited	BVI	US$1	100%	–	Investment holding
Select Sky Limited	HK	HK$24,000,000	–	100%	Investment holding
Haihai Travel Cloud Limited	HK	HK$21,400,000	–	70%	Provision of mobile payment service

For the year ended 31 December 2018

25. Investments In Subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued capital/ registered capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities
Great Sino Technology Development Limited ("**GSTD**")	HK	HK$237,000,000	–	100%	Investment holding
Cosmartec Limited	HK	HK$30,000,000	–	100%	Inactive
鴿子數碼科技(上海)有限公司* (Solomedia Digital (Shanghai) Limited)#	The PRC	HK$240,000,000	–	100%	Provision of advertising, IT and networking services
鴿子數碼科技(宜興)有限公司* (Solomedia (Yixing) Limited)#	The PRC	HK$50,000,000	–	100%	Provision of advertising, IT and networking services
宜興鴿子廣告傳媒有限公司 (Yixing Solomedia Advertising Media Limited)#	The PRC	RMB1,000,000	–	100%	Provision of advertising, IT and networking services
LCE Group	BVI	US$10,000	51%	–	Investment holding
LCE HK Limited	HK	HK$10,000	–	100%	Investment holding and provision of marketing strategy
上海朔泓信息技術有限公司* (Shanghai Shouhong Information Technology Limited)#	The PRC	RMB5,000,000	–	100%	Trading of goods and provision of marketing strategy
上海建運信息技術有限公司 (Lucky Creation Enterprise (Shanghai) Limited)#	The PRC	RMB5,000,000	–	100%	Trading of goods and provision of marketing strategy, management of operation of online shop on E-commerce platform
建宜信息技術(上海)有限公司 (Jianyi Information Technology (Shanghai) Limited)#	The PRC	RMB1,467,259	–	100%	Provision of marketing strategy, management of operation of online shop on E-commerce platform

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

\# Being English translated names.

25. Investments In Subsidiaries (Continued)

Notes:

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

		VCL		**LCE Group**
Date of incorporation		28 August 2013		27 March 2017
Place of incorporation		BVI		BVI
Principal place of business		HK and the PRC		The PRC
% of ownership interests/voting rights held by NCI		44.55%		49% *
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
At 31 December:				
Non-current assets	**63,808**	67,500	**33,562**	40,332
Current assets	**11,578**	15,345	**26,850**	35,409
Current liabilities	**(17,633)**	(19,922)	**(12,432)**	(16,774)
Non-current liabilities	**(12,851)**	(13,102)	**(8,349)**	(10,019)
Net assets	**44,902**	49,821	**39,631**	48,948
Accumulated NCI	**20,004**	22,195	**19,419**	23,985
Year ended 31 December:				
Loss and total comprehensive income	**(4,750)**	(43,911)	**(7,500)**	–
Loss allocated to NCI	**(1,854)**	(20,598)	**(3,675)**	–
Net cash (used in)/generated from operating activities	**(2,240)**	208	**11,784**	–
Net cash generated from investing activities	**1,104**	3,846	**12**	–
Net cash generated from/(used in) financing activities	**597**	(5,292)	**–**	–
Exchange reserves	**(91)**	278	**–**	–
Net (decrease)/increase in cash and cash equivalents	**(630)**	(960)	**11,796**	–

* The Group acquired 51% of equity interest on 28 December 2017 (note 41(b)).

26. Investment In An Associate

	2018 RMB'000	2017 RMB'000
Unlisted investment:		
Share of net assets	**2,871**	3,047
Goodwill	**7,224**	7,224
	10,095	10,271
Less: Accumulated impairment loss *(note (b))*	**(7,224)**	(7,224)
	2,871	3,047

Note:

(a) Details of the Group's associate at 31 December 2018 are as follows:

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

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

	2018 RMB'000	2017 RMB'000
At 31 December:		
Non-current assets	**539**	780
Current assets	**11,585**	10,733
Non-current liabilities	**(206)**	(206)
Current liabilities	**(1,441)**	(187)
Net assets	**10,477**	11,120
Group's share of net assets	**2,871**	3,047
Goodwill	**7,224**	7,224
Group's share of carrying amount of interests	**10,095**	10,271
Year ended 31 December:		
Revenue	**12,869**	4,396
Loss for the year and total comprehensive income	**(642)**	(1,581)

26. Investment In An Associate (Continued)

Notes: (Continued)

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

The cash flow forecasts of Zewei were derived from the most recent financial budgets approved by the directors covering a five-year period using a growth rate of 3%. The pre-tax rate used to discount the forecast cash flow is 21.5% (2017: 24.4%) Since the recoverable amount of Zewei was approximate to its carrying amount, no impairment loss was recognised in 2018 (2017: Nil).

As at 31 December 2018, the bank and cash balances of the Group's associate in the PRC denominated in RMB amounted to RMB10,994,000 (2017: RMB10,031,000). Conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the foreign exchange control regulations imposed by the PRC government.

27. Financial Assets At FVTOCI (2017: Available-For-Sale Financial Assets)

	2018 **RMB'000**	2017 RMB'000
Non-current assets		
Unlisted equity securities	–	4,000
Less: impairment loss	–	(2,200)
	–	1,800

As at 31 December 2018, the unlisted equity securities represent an investment of 1.81% equity interest in one private company established in the PRC which has been fully impaired in previous year.

As at 31 December 2017, the aggregated amount of the financial assets mainly represented the carrying amount of 2.44% unlisted equity securities of a PRC company.

During the year 2018, the Group disposed its 2.44% (which was diluted to 2.1803% during 2018) entire equity interests in another private company established in the PRC at a consideration of RMB2,800,000 and related cost incurred for the disposal was RMB170,000. The Group disposed the investment for the purpose of decrease its bank loan outstanding. The reserve related to this investment had been transferred from financial assets at FVTOCI reserves to accumulated losses upon disposal.

The above financial assets at FVTOCI (2017: available-for-sale financial assets) are denominated in RMB.

28. Other Investments

As at 31 December 2017, the Group's other investments represented financial products issued by one bank. These financial products were performance linked non-equity products on demand with variable return rates indexed to the performance of the underlying assets. The accrued and unpaid interest will be received upon redemption of the investment from the banks. The directors considered that the carrying amounts of the financial products approximates their fair value at the end of the reporting period. The financial products were redeemed during the year 31 December 2018.

29. Inventories

	2018 RMB'000	2017 RMB'000
Finished goods	**2,795**	2,806
Less: Allowance	**(948)**	(949)
	1,847	1,857

Reconciliation of allowance for inventories:

	2018 RMB'000	2017 RMB'000
At 1 January	**949**	438
Acquisition of subsidiaries *(note 41(b))*	**–**	212
Write-off	**(39)**	(438)
Allowance for the year	**–**	764
Exchange differences	**38**	(27)
At 31 December	**948**	949

30. Trade And Other Receivables

	2018 RMB'000	2017 RMB'000
Trade receivables *(note (a))*	**2,653**	22,824
Less: Allowance	**(560)**	(913)
	2,093	21,911
Advance payments to suppliers	**–**	147
Deposits	**2,472**	4,924
Prepayments	**1,076**	1,553
Other receivables		
— Other receivables due from a service provider	**–**	5,000
— Other receivable *(note (b))*	**3,761**	2,003
— Others *(note (c))*	**791**	13,950
	10,193	49,488

30. Trade And Other Receivables (Continued)

Note:

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 1 to 90 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors and senior management.

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

	2018 RMB'000	2017 RMB'000
Up to 3 months	**1,950**	21,714
3 to 6 months	**–**	181
6 months to 1 year	**63**	16
Over 1 year	**80**	–
	2,093	21,911

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

	2018 RMB'000	2017 RMB'000
HK$	**101**	3,984
RMB	**1,992**	17,927
	2,093	21,911

(b) The amount of RMB3,761,000 (2017: RMB2,003,000) as at 31 December 2018 was received on 2 January 2019 from an e-commerce partner for settlement of the obligations as disclosed in note 32(b).

(c) Impairment of RMB11,644,000 on VAT recoverable was recognised as there was no concrete detailed plan how amount be utilised in the foreseeable future.

31. Pledged Bank Deposits And Cash And Cash Equivalents

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents *(note (a)(b))*	**252,459**	20,532
Pledged bank deposits *(note (c))*	**–**	19
	252,459	20,551

Note:

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

	2018 RMB'000	2017 RMB'000
US$	**50**	71
HK$	**229,764**	8,034
RMB	**22,635**	12,418
Others	**10**	9
	252,459	20,532

As at 31 December 2018, the Group's bank and cash balances held by the PRC subsidiaries denominated in RMB amounted to approximately RMB22,633,000 (2017: RMB12,411,000). Conversion of RMB out of the PRC are subject to the foreign exchange control regulations imposed by the PRC government.

(b) As at 31 December 2018, bank balance of RMB1,443,000 (2017: RMB775,000) was restricted for the purpose of settlement obligations as set out in note 32(b).

(c) As at 31 December 2017, the Group's pledged bank deposits represented deposits pledged to a bank for bank guarantee. The amount had been released during 2018.

32. Trade And Other Payables

	2018 RMB'000	2017 RMB'000
Trade payables *(note (a))*	**1,069**	2,938
Receipts in advance from customers	**–**	733
Payables for construction costs and purchase of property, plant and equipment	**5**	966
Other payables		
— Settlement obligation *(note (b))*	**5,204**	2,778
— Other tax payables	**114**	1,284
— Rental deposits from tenants	**1,147**	677
— Others	**1,648**	3,200
Capital gain tax payable *(note (c))*	**6,467**	5,581
Provision for social security costs	**4,716**	3,345
Accrued expenses	**2,986**	3,958
	23,356	25,460

Note:

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

	2018 RMB'000	2017 RMB'000
Up to 3 months	**400**	661
3 to 6 months	**23**	43
6 months to 1 year	**6**	–
Over 1 year	**640**	2,234
	1,069	2,938

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

	2018 RMB'000	2017 RMB'000
RMB	**751**	2,750
HK$	**318**	187
US$	**–**	1
	1,069	2,938

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

(c) As at 31 December 2018, the Group had provision of the capital gain tax of RMB6,467,000 (2017: RMB5,581,000) relating to the acquisition of the LCE Group as disclosed in note 41(b) according to Public Notice [2017] No. 37 and Public Notice [2015] No. 7 ("**Public Notice No. 7**") issued by the State Administration of Taxation (the "**SAT**"). During the year, a provision of RMB566,000 was recognised arising from issuance of consideration shares during the year as disclosed in note 36 and note 38 respectively.

33. Provision For Onerous Contracts

On 28 June 2017, the Group entered into termination agreements mutually with the service providers regarding the withdrawal of the railway Wi-Fi operations for all railway stations due to unexpected delay and difficulties in installation work at certain major railway stations which adversely affected the expected income from the project. Pursuant to the terms of the agreements, all liabilities and commitments previously due and to be due were waived by both parties and considered settled and concluded on 28 June 2017. Hence, the Group reversed the above provision of RMB50,575,000 arising from the impact of onerous contract recognised as at 31 December 2016 and also derecognised the payable amount totalling RMB23,443,000 due to these service providers for the year ended 31 December 2017.

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

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

35. Bank Loans And Banking Facilities

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

	2018 RMB'000	2017 RMB'000
Secured bank loans repayable within one year	**9,000**	10,500

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

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

	2018	2017
Bank loan of RMB2,000,000 (2017: RMB2,500,000)	**5.22%**	5.22%
Bank loan of RMB7,000,000 (2017: RMB8,000,000)	**6.09%**	5.66%

The Group's bank loans are repayable within one year. Bank loan of RMB2,000,000 (2017: RMB2,500,000) is arranged at fixed interest rate and expose the Group to fair value interest rate risk while bank loan of RMB7,000,000 (2017: RMB8,000,000) is arranged at floating interest rate, thus exposing the Group to cash flow interest rate risk.

As at 31 December 2018, the Group's bank loans totalling RMB9,000,000 (2017: RMB10,500,000) are secured by:

— Charge over the building (note 19(b));

— Charge over the prepaid land lease payments (note 22);

— Charge over the investment properties (note 20);

— Charge over a property owned by a related company (note 45(b)); and

— Personal guarantee of a director of the Company's subsidiaries (note 45(b)).

36. Contingent Shares Payables

The contingent shares payables represented the fair value of the consideration shares to be issued to the vendor in the acquisition of subsidiaries as disclosed in note 41(b).

The fair value of the consideration shares as at 31 December 2017 was RMB26,488,000 (equivalent to HK$31,773,000) which was estimated based on the forecasted profits target of the LCE Group ("**Profits Target**") for the year 2017 to 2019 and closing price of the Company's shares as at 31 December 2017 as disclosed in note 41(b).

The fair value of the consideration shares as at 31 December 2018 was estimated to be nil after releasing the value related to shares issued upon fulfilment of 2017 Profits Target and the estimates for 2018 Profits Target and 2019 Profits Target.

As the LCE Group recorded operating loss of RMB2,395,000 (before tax and fair value adjustments arising from acquisition) for the year ended 31 December 2018, the LCE Group was unable to meet the 2018 Profits Target. The directors having reviewed the actual performance of the LCE Group for 2018, budgets and cash flow forecast of the LCE Group of 2019, and considered that the LCE Group was highly likely fail to meet 2019 Profits Target, hence the Company is unlikely required to issue the remaining consideration shares. Therefore, the carrying amounts of the consideration shares of RMB21,359,000 was recognised to profit and loss as fair value gain for the year ended 31 December 2018.

	2018 RMB'000	2017 RMB'000
At 1 January	**26,488**	–
Acquisition of subsidiaries *(note 41(b))*	**–**	26,488
Shares issued upon fulfilment of Profits Target *(note 38(a))*	**(5,414)**	–
Fair value change	**(21,359)**	–
Exchange difference	**285**	–
At 31 December	**–**	26,488
Represented by:	**RMB'000**	RMB'000
Current portion	**–**	5,941
Non-current portion	**–**	20,547
	–	26,488

37. Deferred Tax

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

	Property, plant and equipment and other assets RMB'000	Intangible assets RMB'000	Investment properties RMB'000	Customer relationship RMB'000	Total RMB'000
At 1 January 2017	(332)	(834)	(7,041)	–	(8,207)
Increment in deferred taxes resulting from changes in tax rate *(note 12)*	(308)	(556)	(4,693)	–	(5,557)
Acquisition of subsidiaries *(note 41(b))*	–	–	–	(10,019)	(10,019)
Credited/(charged) to profit or loss *(note 12)*	51	1,390	(649)	–	792
At 31 December 2017 and 1 January 2018	**(589)**	**–**	**(12,383)**	**(10,019)**	**(22,991)**
Credited to profit or loss *(note 12)*	**51**	**–**	**200**	**1,670**	**1,921**
At 31 December 2018	**(538)**	**–**	**(12,183)**	**(8,349)**	**(21,070)**

At 31 December 2018, the Group has unused tax losses of approximately RMB173,604,000 (2017: RMB163,906,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of approximately RMB173,604,000 (2017: RMB163,906,000) due to the unpredictability of future profit streams.

The unused tax losses of approximately RMB158,902,000 (2017: RMB150,967,000) will expire as follows:

	2018 RMB'000	2017 RMB'000
Year 2019	**24,448**	24,448
Year 2020	**74,488**	74,488
Year 2021	**28,921**	28,921
Year 2022	**23,110**	23,110
Year 2023	**7,935**	–
	158,902	150,967

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

38. Share Capital

	The Company Number of shares	The Company Nominal value of shares HK$'000
Authorised:		
Ordinary shares of HK$0.05 each		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	8,000,000,000	400,000

	Number of shares	Nominal value of shares HK$'000	Nominal value of shares RMB'000
Issued and fully paid:			
At 1 January 2017, 31 December 2017 and 1 January 2018	4,762,033,424	238,101	214,067
Issue of new shares upon consideration share granted *(note (a))*	61,437,500	3,072	2,554
Issue of new shares upon placement *(note (b))*	812,500,000	40,625	35,818
At 31 December 2018	5,635,970,924	281,798	252,439

38. Share Capital (Continued)

Notes:

(a) On 25 June 2018, 61,437,500 consideration shares were issued at HK$0.106 each with value of totalling of RMB5,414,000 (equivalent to HK$6,513,000), of which approximately RMB2,860,000 (equivalent to HK$3,441,000) was credited to the Company's share premium account, and approximately RMB2,554,000 (equivalent to HK$3,072,000) was credited to share capital.

(b) On 26 November 2018, the Company and Zhongtai International Securities Limited entered into a placing agreement in respect of the placement of 812,500,000 ordinary shares of HK$0.05 each at a price of HK$0.32 per share. The placement was completed on 12 December 2018 and the premium on the issued shares, amounting to approximately RMB191,108,000 (equivalent to HK$216,755,000), net of share issue expenses of approximately RMB2,310,000 (equivalent to HK$2,620,000), was credited to the Company's share premium account and approximately RMB35,818,000 (equivalent to HK$40,625,000) was credited to share capital.

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the years ended 31 December 2017 and 2018.

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

	2018 **RMB'000**	2017 RMB'000
Debt (a)	**38,353**	41,543
Less: Cash and cash equivalents	**(252,459)**	(20,532)
Net debt	**N/A**	21,011
Equity (b)	**279,531**	102,771
Net debt-to-adjusted capital ratio	**N/A**	20.44%

(a) Debt is defined as trade and other payables, due to directors and related parties and bank loans as detailed in notes 32 and 34, 45(c) and 35 to the consolidated financial statements.

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

It is the Group's strategy to keep the debt-to-adjusted capital ratio as low as feasible. Net debt-to-adjusted capital ratio was not applicable for the year ended 31 December 2018 because the Group had RMB252,459,000 bank and cash balances arising from the share placement held near the year ended 31 December 2018 which can be sufficient to repay all the debts of the Group.

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

The Group checks the substantial share interests showing the non-public float through the Stock Exchange's website and it demonstrates continuing compliance with the 25% limit throughout the year. At 31 December 2018, 89.47% (2017: 84.77%) of shares were in public hands.

For the year ended 31 December 2018

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

(a) Statement of financial position of the Company

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Non-current assets		
Investments in subsidiaries	**55,361**	104,970
Current assets		
Prepayment and other receivables	**521**	488
Cash and cash equivalents	**223,197**	3,373
	223,718	3,861
Current liabilities		
Accruals and other payables	**8,807**	8,842
Due to directors	**–**	2
Contingent shares payables	**–**	5,941
	8,807	14,785
Net current assets/(liabilities)	**214,911**	(10,924)
Non-current liabilities		
Contingent shares payables	**–**	20,547
	–	20,547
NET ASSETS	**270,272**	73,499
Capital and reserves		
Share capital	**252,439**	214,067
Reserves	**17,833**	(140,568)
TOTAL EQUITY	**270,272**	73,499

Approved by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Yang Xin Min
Director

Yang Zhen
Director

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

(b) Reserve movement of the Company

	Share premium account RMB'000 *(note 40(b)(i))*	Foreign currency translation reserve RMB'000 *(note 40(b)(iii))*	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	1,075,224	(89,491)	(1,088,718)	(102,985)
Total comprehensive income for the year	–	(5,572)	(32,011)	(37,583)
Changes in equity for the year	–	(5,572)	(32,011)	(37,583)
At 31 December 2017 and at 1 January 2018	**1,075,224**	**(95,063)**	**(1,120,729)**	**(140,568)**
Total comprehensive income for the year	**–**	**(3,497)**	**(32,070)**	**(35,567)**
Issue of new shares upon consideration share granted *(note 38(a))*	**2,860**	**–**	**–**	**2,860**
Issue of new shares upon placement *(note 38(b))*	**191,108**	**–**	**–**	**191,108**
Changes in equity for the year	**193,968**	**(3,497)**	**(32,070)**	**158,401**
At 31 December 2018	**1,269,192**	**(98,560)**	**(1,152,799)**	**17,833**

40. Reserves

(a) The Group

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

(b) Nature and purpose of reserves

(i) Share premium account

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

40. Reserves (Continued)

(b) Nature and purpose of reserves (Continued)

(ii) Statutory reserve

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

(iii) Foreign currency translation reserve

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

(iv) Capital reserve

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

(v) Other reserve

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

(vi) Financial assets at FVTOCI reserve

The financial assets at FVTOCI reserve comprises the cumulative net change in the fair value of financial assets at FVTOCI (2017: Available-for-sale financial assets) held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 4(m) to the consolidated financial statements.

41. Note To Cash Flow Statement

(a) Disposal of subsidiaries

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

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

41. Note To Cash Flow Statement (Continued)

(a) Disposal of subsidiaries (Continued)

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

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

41. Note To Cash Flow Statement (Continued)

(b) Acquisition of subsidiaries

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

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

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

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

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

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

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

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

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

41. Note To Cash Flow Statement (Continued)

(b) Acquisition of subsidiaries (Continued)

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

	RMB'000
Net assets acquired:	
Property, plant and equipment *(note 19)*	166
Intangible assets *(note 24)*	40,166
Inventories	1,275
Trade and other receivables	24,763
Cash and cash equivalents	9,371
Trade and other payables	(7,416)
Current tax liabilities	(4,493)
Due to a related party	(4,865)
Deferred tax liabilities *(note 37)*	(10,019)
	48,948
Non-controlling interests	(23,985)
Goodwill	59,883
	84,846
Satisfied by:	
Cash	58,358
Fair value of consideration shares *(note 36)*	26,488
	84,846
Net cash outflow arising on acquisition:	
Cash consideration paid	58,358
Cash and cash equivalents acquired	(9,371)
	48,987

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

No revenue and profit were contributed by the LCE Group to the Group's revenue for the period between the date of acquisition and the end of 2017 as the acquisition was complete near the end of 2017.

41. Note To Cash Flow Statement (Continued)

(b) Acquisition of subsidiaries (Continued)

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

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

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

(c) Reconciliation of liabilities arising from financing activities

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

2018	**1 January 2018 RMB'000**	**Cash flows RMB'000**	**Interest expenses RMB'000**	**31 December 2018 RMB'000**
Bank loans *(note 35)*	**10,500**	**(967)**	**(533)**	**9,000**
Due to related parties	**500**	**200**	**–**	**700**
	11,000	**(767)**	**(533)**	**9,700**

2017	1 January 2017 RMB'000	Cash flows RMB'000	Interest expenses RMB'000	31 December 2017 RMB'000
Bank loans *(note 35)*	15,000	(5,292)	792	10,500
Due to related parties	–	500	–	500
	15,000	(4,792)	792	11,000

42. Lease Commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within one year	1,887	1,745
In the second to fifth year inclusive	1,052	1,054
	2,939	2,799

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

At 31 December 2018, the total future minimum lease expected to be received under non-cancellable operating leases are as follows:

	2018 RMB'000	2017 RMB'000
Within one year	1,783	1,937
In the second to fifth year inclusive	2,945	685
	4,728	2,622

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

43. Capital Commitments

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	2018 RMB'000	2017 RMB'000
Intangible assets	270	–

44. Other Commitments

At 31 December 2018, the Group had certain commitments in respect of the outstanding capital contribution of the following associated company and subsidiaries:

	2018 RMB'000	2017 RMB'000
Solomedia Digital (Shanghai) Limited	**2,635**	2,501
Solomedia (Yixing) Limited	**22,835**	21,676
Haihai Travel Cloud Limited	**4,374**	4,152
Cosmartec Limited	**26,348**	25,010
托雲網絡科技（上海）有限公司	**878**	834
Cloutac Networks Limited	**430**	408

45. Related Parties Transactions

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

(a) Transactions with related parties

Name of related parties	Relationship	Nature of transaction	2018 RMB'000	2017 RMB'000
Zewei	An associate	Service cost charged	**–**	1,836
蘇州小璐機器人有限公司	Controlled by a senior management personnel of the Group	Service cost charged	**449**	69
Singutac Limited	Controlled by a senior management personnel of the Group	Service income received	**–**	198
怡峰商務諮詢（上海）有限公司	Controlled by a senior management personnel of the Group	Service cost charged	**–**	288
		Service income received	**444**	895

45. Related Parties Transactions (Continued)

(b) Details of guarantees provided by related parties for banking facilities granted to the Group are as set out in note 35 to the consolidated financial statements.

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

Name of related parties	Relationship	Terms	2018 RMB'000	2017 RMB'000
Lucky Creation Enterprise Limited	Non-controlling interest of the Group	Unsecured, interest-free and repayable on demand	**(5,125)**	(4,865)
Singutac Group Holdings Limited	Controlled by a senior management personnel of the Group	Unsecured, interest-free and repayable on demand	**86**	82
Singutac Limited	Controlled by a senior management personnel of the Group	Unsecured, interest-free and repayable on demand	**–**	162
蘇州小璐機器人有限公司	Controlled by a senior management personnel of the Group	Unsecured, interest-free and repayable on demand	**–**	500
Kwan Che Ho, Jacky	A senior management personnel of the Group	Unsecured, interest-bearing of 10% per annum and repayable on or before 15 June 2019 (2017: repayable on or before 15 June 2018)	**(700)**	(500)
Kwan Che Hang, Jason	A senior management personnel of the Group	Unsecured, interest-free and repayable on demand	**(106)**	–
Zhang Fang	A senior management personnel of the Group	Unsecured, interest-free and repayable on demand	**(33)**	(50)
怡峰商務諮詢(上海)有限公司	Controlled by a senior management personnel of the Group	Unsecured, interest-free and repayable on demand	**–**	(122)

45. Related Parties Transactions (Continued)

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

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

	2018 RMB'000	2017 RMB'000
Short-term benefits	5,233	5,964

46. Contingent Liabilities

The Company acquired 51% equity interests in LCE Group from the vendor (a BVI company) during the year as disclosed in note 41(b). This transaction is regarded as indirect transfer of the PRC subsidiaries of LCE Group by non-tax residents and fall within the scope as described in the Public Notice 7 issued by the SAT.

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

As at 31 December 2017, the Group has paid RMB58,358,000 (equivalent to HK$70,000,000) to the vendor. On 25 June 2018, consideration shares of RMB5,414,000 (equivalent to HK$6,541,000) was granted to the vendor as part of the consideration for the acquisition of LCE Group. Neither the Group nor the vendor has reported the share transfer transaction or has settled the EIT to the PRC tax authorities upon consideration being partially settled according to the Agreement. The directors, after consulting the Group's PRC legal counsel, were of opinion that a provision of RMB5,581,000 calculated based on the cash consideration paid to the vendor as of 31 December 2017 and further provision of RMB566,000 was made regarding the shares granted during 2018. They also considered that the risk of having a penalty imposed by the PRC tax authorities was reasonably low.

Apart from above, the Group has no other material contingent liabilities as at 31 December 2018.