# CHINA PUBLIC PROCUREMENT LIMITED
# 中國公共採購有限公司

*(incorporated in Bermuda with limited liability)*

**(Stock code: 1094)**


ANNUAL REPORT
# 2018

# Contents

# Corporate Information

## DIRECTORS

### Executive Directors

Mr. Zheng Jinwei, *EMBA, BEng*
*(Chairman and Chief Executive)*
Mr. Ho Wai Kong *(Honorary Chairman)*
Ms. He Qian, *CPA (PRC), EMBA , BAcc*
Miss Ng Weng Sin, *FCPA (HK), EMBA, MCF, MPA*
(resigned on 29 June 2018) *(Chief Financial Officer)*

### Non-executive Directors

Mr. Chen Limin, *Solicitor (PRC), LLB*
Mr. Zhang Jianguo, *EMBA, BEng*
(appointed on 19 July 2018)
Mr. Xu Peng, *EMBA*
(appointed on 19 July 2018)

### Independent Non-executive Directors

Mr. Deng Xiang, *BSc , BEcon, CPA (PRC)*
Mr. Jiang Jun, *BAcc*
Mr. Wang Shuai, *BEcon*
(appointed on 21 December 2018)
Ms. Wong Yan Ki, Angel, *FCPA (Aust.), FIPA, EMBA, BA*
(resigned on 29 July 2018)

## BOARD COMMITTEES

### Audit Committee

Mr. Deng Xiang *(Chairman)*
(appointed as Chairman on 30 November 2018)
Mr. Chen Limin
Mr. Jiang Jun
(appointed on 30 November 2018)
Ms. Wong Yan Ki, Angel *(Chairman)*
(resigned on 29 July 2018)

### Remuneration Committee

Mr. Jiang Jun *(Chairman)*
Mr. Deng Xiang
Mr. Zheng Jinwei
(appointed on 21 December 2018)
Miss Ng Weng Sin
(resigned on 29 June 2018)

### Nomination Committee

Mr. Zheng Jinwei *(Chairman)*
Mr. Jiang Jun
Mr. Deng Xiang

## AUTHORISED REPRESENTATIVES

Mr. Zheng Jinwei
Miss Ng Weng Sin
(appointed on 24 January 2018)
Ms. Ma Wai Sze, Aceya
(resigned on 24 January 2018)

## COMPANY SECRETARY

Miss Ng Weng Sin
(appointed on 24 January 2018)
Ms. Ma Wai Sze, Aceya, *Solicitor, LLM, PCLL, LLB(Hon), LLB (Tsinghua)*
(resigned on 24 January 2018)

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

## REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1802, 18/F.,
No.88 Gloucester Road
Wanchai, Hong Kong

## AUDITOR

RSM Hong Kong

## LEGAL ADVISORS

### As to Hong Kong law
Fangda Partners

### As to Bermuda law
Conyers Dill & Pearman

### As to PRC law
Li & Partners
Dewell & Partners Law Firm

## PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
China Merchant Bank Co., Ltd.

## STOCK CODE

1094

## WEBSITE

www.cpphk1094.com

# Chairman's Statement

## BUSINESS OPERATION

The Group kept sound development in main business in 2018 with good momentum.

Firstly, products are more diversified. In addition to the two products, namely, electronic platform for government procurement and university procurement management platform, which have kept leading position in the country, the Group also developed state-owned enterprises procurement electronic platform and electronic procurement platform for financial institutions.

Secondly, target customers are further expanded. Over the years, we have accumulated government procurement customers in more than 10 provinces and municipalities in the People's Republic of China (the "**PRC**") including Hubei, Hainan, Qinghai, Inner Mongolia Autonomous Region, Tianjin and Shenzhen, generating continuous increases in transaction volume, number of suppliers and revenue of the Group, and new customers such as Inner Mongolia Power Group and Weihai City Commercial Bank have brought in new revenue.

Thirdly, technical level continues to improve, and customer experience is getting better and better. We upgraded Qinghai Provincial Government Procurement Platform and Shenzhen Municipal Government Procurement Platform, strengthened resident service for the provincial and municipal platforms operated and maintained by the Group, added remote service and online payment for supplier customers, and continuously improved service quality.

Fourthly, revenue from the main business has increased. Except the newly established subsidiaries in Weihai City, Inner Mongolia and Shanxi, the Group's revenue from public procurement business and enterprise procurement information solutions business amounted to HK$7,616,000 and HK$17,789,000, respectively, representing an increase over the previous year.

The property which the Group invested in is a commercial office building in Donghu New Technology Development Zone, Wuhan City, Hubei Province, which changed its property service provider in 2018. Its occupancy rate, tenant satisfaction rate and rental income continued to increase to a record high. The rental income obtained has become a continuous cash flow of the Group, providing financial guarantee for the development of the public procurement electronic platform business.

## BUSINESS PROSPECTS

With the continuation of the anti-corruption efforts of the Chinese government and the gradual popularization of B2B and B2G e-commerce businesses, the development trend of electronic procurement and e-commerce of government procurement, state-owned enterprise procurement and public institution procurement is very obvious. In addition to the government, state-owned enterprises, colleges and universities, public hospitals and social organizations are also trying to use electronic platforms for purchasing goods and services, which is very beneficial to the development of the Group's business.

The Group seized the opportunity to strengthen the cultivation and upgrading of the advantages of the government procurement electronic platform on the one hand and actively explore the big market of electronic procurement platform for state-owned enterprises, financial institutions and hospitals one the other hand. The Group took the lead in setting up the research group of "Standards of Procurement Management and Operation for State-owned Enterprises", and participated in compiling the industry standards of "Standards of Procurement for State-owned Enterprises", with which the Group has accumulated experience and customer resources for its next step task in developing the procurement business of state-owned enterprises.

Since 2019, the Group will leverage on the market strength of online public procurement, and focus on building the four products of "Government Procurement and Trading Platform", "Electronic Procurement Platform for Colleges and Universities", "Electronic Platform Procurement for State-owned Enterprise" and "Electronic Procurement Platform for Financial Institution", striving to expand the Company's market share rapidly. Meanwhile, a variety of transaction data is converged through the trading system, data cleaning, processing, and analysis, to provide valuable services for both sides of the procurement transaction, including supply chain financing, procurement information customization, bidding collaboration, etc.

Based on the first-mover advantage of public e-procurement, the Group will continue to enhance the technical research and development capability of the procurement system, concentrate on market development and brand communication, and strive to rapidly expand its market share, especially the huge market of state-owned enterprises. At the same time, the Group will integrate our pillar products such as electronic platforms of government procurement, college and university procurement, state-owned enterprise procurement, and financial institutions procurement, unify data standards, function modules and service model, achieving data sharing and supplier sharing of the four systems with scale effect, and explore more value-added services, so as to further enhance the Group's leading position in China's e-procurement platform.

# Management Discussion and Analysis

## I. BUSINESS REVIEW

In 2018, the Group continued to operate electronic trading platforms and management systems for government procurement and electronic procurement platforms for universities and colleges in the domestic public procurement area, and developed electronic procurement platforms for state-owned enterprises. The functions of the platforms became more advanced, both the number of users who used the platform to carry out procurement and the number of suppliers increased significantly, technical and service standards were further enhanced, and service income continued to increase.

The volume of transactions on the electronic procurement platforms developed and constructed by the Company for provincial and municipal governments such as Hubei Province, Hainan Province, Qinghai Province, Inner Mongolia Autonomous Region, Tianjin and Shenzhen, continued to grow. In particular, the procurement platform for governments in Hubei Province started to extend to their subordinate cities and counties. During the year, government procurement platform of Qinghai Government achieved upgrade and the procurement platform for enterprises of IM Power Group was put into operation and recorded income. Subsidiaries were established in Weihai and Shanxi to develop local market. Procurement platforms of more than 10 colleges and universities including Wuhan Technology and Business University were also put into operation. The income from technical service fees from three types of platforms exceeded HK$17.8 million; the number of registered suppliers surpassed 20,000, and revenue was also received from value-added services such as digital certification authentication, electronic signature, and financing facilitating services.

## II. FINANCIAL REVIEW

### Operational Performance

#### *1. Revenue*

Revenue of the Group for the year was HK$68,289,000 (2017: HK$64,837,000), representing an increase of HK$3,452,000, or 5.3% as compared to last year.

The revenue included revenue from public procurement of HK$7,616,000, accounting for 11.2% of the total revenue; revenue from trading business of HK$31,221,000, accounting for 45.7% of the total revenue; revenue from provision of corporate IT solution of HK$17,789,000, accounting for 26.0% of the total revenue; and rental income of HK$11,663,000, accounting for 17.1% of the total revenue.

The increase in revenue in the year was mainly due to the increase in revenue in corporate IT solution services as we had put more resources to meet its market demand. Furthermore, the shorter vacancy time and increase in rental prices of our investment properties located in Wuhan City, Hubei Province, the PRC, led to our increase in revenue.

### 2. *Cost of sales*

Cost of sales for the year was HK$45,471,000 (2017: HK$47,608,000), representing a decrease of HK$2,137,000, or 4.5% as compared to last year. Cost of sales mainly comprised cost of goods purchased for trading business, technical staff cost, relevant fixed assets depreciation, the cost of authentication key and the water and electricity of properties rented. The decrease was mainly due to more efficient cost control.

### 3. *Gross profit*

Gross profit for the year was HK$22,818,000 (2017: HK$17,229,000), representing a increase of HK$5,589,000, or 32.4% as compared to last year. Gross profit margin for the year was 33.4%, representing an increase of 6.8 percentage point as compared to the gross profit margin of 26.6% last year.

The increase in gross profit was mainly due to the increase in revenue in amount and increase in gross profit margin due to the effective control on the cost of sales.

### 4. *Other income and gains*

Other income and gains for the year was HK$6,579,000 (2017: 26,482,000), representing a decrease of HK$19,903,000, or 75.2% as compared to last year. The other income and gains mainly comprised fair value gain on investment properties, interest income, dividend income and government grants. The decrease in other income and gains for the year was primarily because the fair value gain on investment properties was less than last year.

### 5. *Administrative expenses*

Administrative expenses for the year was HK$55,553,000 (2017: HK$53,005,000), representing a increase of HK$2,548,000, or 4.8% as compared to last year. The administrative expenses mainly comprised staff cost and benefits, legal and professional fee, rental expenses, office expenses and share option expenses. The increase in administrative expenses was mainly due to the increase in share option expenses arising from the grant of share options during the year.

### 6. *Impairment loss and reversal of impairment loss of receivables*

During the year, the Group made further provision for impairment loss on receivables of HK$931,000 based on the ECL of receivables. The reversal of impairment loss for loan receivables was HK$5,826,000 as the results of legal actions taken placed against some debtors having full provision made in previous years. The net amount of provision thus was HK$4,895,000.

The details of the provision for the year are as below:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Impairment loss for amounts due from an ex-substantial shareholder and its subsidiaries | **—** | (72,495) |
| Impairment loss for deposit paid for potential acquisition of a subsidiary | **—** | (15,000) |
| Impairment loss for loan receivables | **—** | (40,207) |
| Impairment loss for trade and other receivables | **(905)** | (38,961) |
| Write-off of other prepayments | **(26)** | — |
| Provision for impairment loss | **(931)** | (166,663) |
| Reversal of impairment loss for amounts due from an ex-substantial shareholder and its subsidiaries | **710** | — |
| Reversal of impairment loss for trade and other receivables | **240** | 10,183 |
| Reversal of impairment loss for loan receivables | **4,876** | — |
| Reversal of impairment loss | **5,826** | 10,183 |
| Provision for impairment loss, net | **4,895** | (156,480) |

### 7. *Financial costs*

Financial costs for the year was HK$3,009,000 (2017: HK$11,164,000), representing an decrease of HK$8,155,000, or 73.0% as compared to last year.

The decrease in finance costs was mainly due to the decrease in interest for discounting bills and interest on convertible bonds which was redeemed in 2017. Furthermore, the repayment of bank and other borrowing in 2017 and 2018, which was financed by the net proceeds from the issue of ordinary shares in 2017 and 2018), reduced the corresponding interest expenses.

### 8. *Income tax credit*

Income tax credit of the Group for the year amounted to HK$492,000 (2017: income tax credit HK$2,569,000). The income tax credit was mainly due to the deferred tax credit arising from the tax on land appreciation tax of our properties located in Wuhan City Hubei Province, the PRC. Its applicable tax rate was lower than last year because of long holding time.

### 9. *Loss for the year*

Loss of the Group for the year amounted to HK$23,778,000 (2017: HK$179,544,000), representing a decrease of HK$155,766,000, or 86.8% as compared to last year. The decrease in loss for the year compared to 2017, was mainly due to the provision for impairment loss less than last year.

## Financial Position

### 1. *Liquidity and capital resources*

As at the year ended date, the Group maintained bank and cash balances of HK$26,344,000, representing a decrease of HK$16,926,000, or 39.1% as compared to HK$43,270,000 as at the year ended date of last year. During the year, the net cash used in operating activities amounted to HK$15,866,000; the net cash generated from investing activities amounted to HK$99,762,000; and the net cash used in financing activities amounted to HK$97,388,000, of which HK$13,338,000 were the proceeds from issue of new shares.

### 2. *Capital structure*

As at the year ended date, the total assets of the Group amounted to HK$329,673,000, the total equity amounted to HK$183,990,000, the total liabilities amounted to HK$145,683,000. The gearing ratio (total assets over total liabilities) was 2.26 (2017: 1.87:1). The current debt ratio (current assets over current liabilities) was 0.68 (2017: 1.09:1).

## III. OTHER ISSUES

### 1. Material investment, material acquisition and disposal of subsidiaries and future material investment or capital and assets acquisition plan

The Group did not have any material investment and material acquisition or disposal of subsidiaries during the year.

### 2. Pledge of assets

As at the year ended date, the Group has obtained a credit facility of RMB80,000,000 (equivalent to approximately HK$91,440,000) from a bank in the PRC by pledging the Group's properties. Bank borrowing at 31 December 2107 and 2018 was secured by a charge over the Group's property, plant and equipment, prepaid land lease payments, part of investment properties, trade receivables and bank and cash balances. As at 31 December 2018, facilities of RMB34,000,000 (equivalent to approximately HK$38,862,000) have been utilised by the Group.

### 3. Capital commitment and contingent liabilities

As at the year ended date, save as disclosed in this annual report, the Group did not have any capital commitment. Furthermore, the Group did not have any contingent liabilities.

### 4. Foreign exchange exposure

During the year, the Group mainly earned revenue in RMB and incurred costs mainly in HK$ and RMB. Although the Group currently does not have any foreign currency hedging policies, it does not foresee any significant currency exposure in the near future. However, any permanent or significant changes in RMB against HK$ may have an impact on the Group's results and financial positions.

### 5. Staff and remuneration

The Group determines staff remuneration in accordance with market terms, individual qualifications and performances. Staff recruitment and promotion are based on individuals' merit and their development potential for the positions offered. As at 31 December 2018, the Group employed approximately 130 employees, and the total remuneration of employees (including the Directors) was approximately HK$37,282,000. The Company maintains a share option scheme, pursuant to which share options are granted to selected Directors or employees of the Group, with a view to attract and retain quality personnel and to provide them with incentive to contribute to the business and operations of the Group.

## 6. Event after the reporting period

On 20 February 2019, resolutions in relation to the Company's capital reorganisation were duly passed by shareholders by way of poll and effective from 21 February 2019. The capital reorganisation comprises the following:

### *(a) Share consolidation*

(i) every ten (10) issued and unissued ordinary share(s) of HK$0.10 each in the share capital of the Company be consolidated into one (1) ordinary share of HK$1.00 each (the "**Consolidated Ordinary Share**"); and

(ii) every ten (10) issued and unissued convertible preference share(s) of HK$0.10 each in the share capital of the Company be consolidated into one (1) convertible preference share of HK$1.00 each (the "**Consolidated Preference Share**").

### *(b) Capital reduction*

(i) reduction of any fractional Consolidated Ordinary Share in the issued share capital of the Company arising from the share consolidation by way of cancellation;

(ii) reduction of the issued share capital of the Company by cancelling the paid up capital of the Company to the extent of HK$0.90 on each of the then issued Consolidated Ordinary Shares such that the par value of each issued Consolidated Ordinary Share will be reduced from HK$1.00 to HK$0.10; and

(iii) the authorised share capital of the Company of HK$300,000,000 divided into 200,000,000 Consolidated Ordinary Shares and 100,000,000 Consolidated Preference Shares shall be reduced to HK$30,000,000 divided into 200,000,000 New Ordinary Shares (as defined in the circular of the Company dated 28 January 2019 (the "**Circular**") and 100,000,000 New Preference Shares (as defined in the Circular) by reducing the par value of all unissued Consolidated Shares (as defined in the Circular) from HK$1.00 each to HK$0.10 each (the "**Capital Reduction**"). The amount of crediting arising from the Capital Reduction was approximately HK$157,041,000.

(c) ***Authorised Share Capital Increase***

Upon the Share Consolidation (as defined in the Circular) and Capital Reduction become effective, the authorised share capital of the Company be increased from HK$30,000,000 divided into 200,000,000 New Ordinary Shares and 100,000,000 New Preference Shares of par value of HK$0.10 each, respectively, to HK$50,000,000 divided into 400,000,000 New Ordinary Shares and 100,000,000 New Preference Shares of par value HK$0.10 each, respectively, by the creation of an additional 200,000,000 New Ordinary Shares (the "**Authorised Share Capital Increase**").

(d) ***Share premium reduction***

The amount standing to the credit of the share premium amount (approximately HK$7,153,619,000 as at 31 December 2017, based on the audited consolidated financial statements for the year ended 31 December 2017) of the Company be reduced, with such amount of the credit arising therefrom being transferred to the Contributed Surplus (as defined in the Circular), and the amount standing to the credit of the Share Premium Account (as defined in the Circular) be reduced to nil (the "**Share Premium Reduction**").

(e) ***Offsetting the accumulated losses***

The amount of credit arising from the Capital Reduction in the sum of approximately HK$157,041,000 and the amount of credit arising from the Share Premium Reduction in the sum of approximately HK$7,153,619,000 be credited to the Contributed Surplus (as defined in the Circular) with the credit balance of approximately HK$332,310,000 as at 31 December 2017, based on the audited consolidated financial statements for the year ended 31 December 2017. The amount standing to the credit of the Contributed Surplus was approximately HK$7,642,970,000 following the two transfers of all the credit arising from the Capital Reduction and Share Premium Reduction to the Contributed Surplus. After that, the sum of HK$7,424,893,000 in the Contributed Surplus shall be utilised to set off against the Accumulated Losses (as defined in the Circular) in full in the manner permitted by the Company Act (as defined in the Circular) and the bye-laws of the Company (the "**Bye-laws**").

Save as disclosed above, no subsequent events occured after 31 December 2018, which may have a significant effect, on the assets and liabilities or future operations of the Group.

## IV. BUSINESS PROSPECTS

Electronic procurement and e-commerce procurement by the Chinese government and public institutions are the future directions for development, and also an inevitable requirement for the Chinese government to continue to vigorously prevent corruption and increase the transparency of power. Currently, the governments in China have substantially adopted electronic procurement. The state-owned enterprises, universities and colleges, public hospitals and social organisations are also trying to use the electronic platforms in procurement of materials and services. Such market environment is favorable to the development of the Group's business.

After years of brand accumulation, products research and market development, the Group is well positioned in the market and has solid foundation for the rapid development of business in the future. In 2019, the Group will promptly expand its market share in the area of electronic procurement for state-owned enterprises by utilising the right of speech arising from the participation in the preparation of industrial standards, including the State-owned Enterprise Procurement Operation Specifications. Through such effort, the Group has acquired experience and customer resources to facilitate the Group's state-owned enterprise procurement business. Meanwhile, the trading system will serve to gather various data for cleaning, processing and analysis to provide valuable service for both parties to the trading. In particular, the Group will focus on supply chain finance service, aiming to create new revenue sources.

The Group will take foot in the public procurement market covering the governments, universities and colleges and enterprises and develop more value-added services based on the big data strengths arising from constantly expanding electronic procurement platform and accumulating trading data. The Group will further enhance its leading position in the public procurement market in PRC.

# Biography of Directors and Company Secretary

## DIRECTORS

### Executive Directors

**Mr. Zheng Jinwei**, aged 49, joined the Company in December 2014, is an Executive Director, Chairman of the Board, Chief Executive, the Chairman of the Nomination Committee, a member of the Remuneration Committee (appointed in December 2018) and Authorised Representative as well as a director of several subsidiaries of the Company. He obtained a degree of bachelor of engineering from Beijing University of Chemical Industry in 1991, and a degree of executive master of business administration from Cheung Kong Graduate School of Business in 2014, and has previous work experience in Beijing University of Chemical Industry. Mr. Zheng has over 20 years of experience of serving as a company's director, including a director of Beijing Tiandi Jingwei Technology & Trade Limited* (北京天地經緯科貿有限公司) and Beijing Tiandi Ruiqi Technology & Trade Limited* (北京天地瑞祺科貿有限公司) from 1996 to 2006 and a director in Zhao Wei International Enterprise Limited* (兆偉國際企業有限公司) since 2006. Mr. Zheng has also accumulated years of business experience in China and Hong Kong, engaging in various aspects including business operations, business management and corporate governance, and plays a leading role in the Company's business development and operating strategies.

**Mr. Ho Wai Kong**, aged 63, joined the Company in January 2010, is an Executive Director and Honorary Chairman of the Board, as well as a director of several subsidiaries of the Company. Mr. Ho is an entrepreneur who for the last 30 years has been actively involved in China/Hong Kong cross border business development. Mr. Ho's extensive experience, far-reaching network and business acumen will be invaluable for the Company in its business development in the PRC.

**Ms. He Qian**, aged 46, joined the Company in January 2015, is an Executive Director. She obtained a bachelor's degree in accounting from University of International Business and Economics in 2006 and a degree of executive master of business administration from Cheung Kong Graduate School of Business in 2011, and she is a certified accountant and certified tax agent. She began her career in accounting in 1994, and served as the head of Tianrui Tax Agency Firm* (天瑞税務師事務所) and Zhejiang Yuehua Certified Public Accountants* (浙江岳華會計師事務所) founded by her from 2001 to 2004. She became a partner of RSM China Certified Public Accountants (中瑞岳華會計師事務所) from 2009 to July 2013, where she was responsible for the operation of the Zhejiang branch as its head. Highly experienced in accounting, she was a contracted project partner for The Potevio (普天集團), a state-owned key enterprise, Hangzhou Industrial Investment Group Co., Ltd.* (杭州實業投資集團), a state-owned enterprise, and listed companies such as Eastcom (東方通信), Jiangsu Akcome (江蘇愛康), EastcomPeace (東信和平) and Zhonghen Electric (中恒電氣), as well as the initial public offering of dozens of other companies. She was a partner and the head of Zhejiang Branch of Ruihua Certified Public Accountants (瑞華會計師事務所) from August 2013 to April 2015. She has been working for Zhejiang Yueyou Investment Management Co., Ltd (浙江岳佑投資管理有限公司) since May 2015.

## Non-executive Directors

**Mr. Chen Limin**, aged 55, joined the Company in July 2015, is a Non-executive Director and a member of the Audit Committee. He graduated from the faculty of law of the Southwest University of Political Science & Law in 1985, and was qualified as a lawyer in the PRC in 1987. Since 1992, he has been engaged in securities-related legal affairs in the PRC and served as a lawyer and partner in a number of law firms in Shenzhen and Beijing. Currently he is a lawyer and partner serving in Zhong Lun Law Firm in Beijing. He served as an independent non-executive director in Hidili Industry International Development Limited from October 2009 to September 2015 and was an independent director of People.cn Co. Ltd from December 2010 to December 2016. Since May 2017, he was an independent director of Anhui Kouzi Distillery Co., Ltd.

**Mr. Zhang Jianguo**, aged 49, joined the Company in July 2018, is a Non-executive Director. He graduated from Xidian University, the PRC with a bachelor's degree in engineering (computer application) in 1988. He further obtained an executive master's degree in business administration with Cheung Kong Graduate School of Business (CKGSB), the PRC in 2013. Mr. Zhang has years of experience in corporate management including the chairman of Xinjiang Jianming Equity Investment Co., Ltd.* (新疆建銘股權投資有限公司) since 2011.

**Mr. Xu Peng**, aged 50, joined the Company in July 2018, is a Non-executive Director. He graduated from Tsinghua University, the PRC with an executive master's degree in business administration in 2008. Mr. Xu has been the chairman of Shanxi Tianxing Overseas Seafood Restaurant Group Co., Ltd.* (山西天星海外海餐飲集團有限公司) since 2000 and has been the chairman of Guanmiao (Beijing) Investment Management Co., Ltd.* (觀妙(北京)投資管理有限公司) since 2015.

## Independent Non-executive Directors

**Mr. Deng Xiang**, aged 46, joined the Company in September 2014, is an Independent Non-executive Director and a member of the Nomination Committee, the Remuneration Committee and the Chairman of the Audit Committee (appointed as Chairman from member in November 2018). He graduated from Sichuan University with a bachelor degree of science and also possesses a bachelor degree in Economics. He is also a certified public accountant in the PRC. Prior to joining the Company, Mr. Deng was the financial manager of Chengdu Branch of Dapeng Securities Co., Ltd.* (大鵬證券有限責任公司), the audit manager of Chengdu Shenlan Group Co., Ltd.* (成都深藍集團有限公司), head of internal audit department in the PRC of Asia Pulp & Paper Co., Ltd. (APP) and the senior manager of Guosen Securities Co., Ltd.* (國信證券有限責任公司). He served as deputy general manager, financial controller and board secretary of Xizang Haisco Pharmaceutical Group Co., Ltd. (stock code in the Shenzhen Stock Exchange: 002653) from November 2009 to December 2016. He is subsequently the vice president in charge of financial matters of the group and the board secretary of the company. He served as the financial controller of Shannan Yuanhong Technology Co., Ltd.* (山南遠宏科技有限公司) since January 2017.

**Mr. Jiang Jun**, aged 40, joined the Company in June 2017, is an Independent Non-executive Director, the Chairman of the Remuneration Committee, a member of the Nomination Committee and the Audit Committee (appointed in November 2018). He obtained a bachelor's degree in accounting from Beijing University of Chemical Technology in 2003. He is a qualified intermediate accountant and holds the National Computer Rank Examination Grade II Certificate. He started his career in accounting since 2003. He was an accountant for Beijing Longde Group Limited* (北京龍德實業集團有限公司) from September 2003 to June 2006, and he has been the chief audit executive for Shi Boo Investment Holding Co., Ltd. since July 2006.

**Mr. Wang Shuai**, aged 45, joined the Company in December 2018, is a Independent Non-executive Director. He was graduated with a bachelor degree in economics and management from the Correspondence Institute of the Party School of the Central Committee of the Communist Party of China* (中共中央黨校函授學院) (by way of distance learning) in December 2005 and is currently pursuing a degree of executive master of business administration in Cheung Kong Graduate School of Business in the PRC.

Mr. Wang has accumulated years of business working experience, including served as the general manager of Shanxi Golden Mining Co., Ltd.* (山西金地礦業有限公司) from October 2010 to May 2016 and has been serving as the chairman of Jiangtun Financial Services (Shenzhen) Technology Co., Ltd.* (江豚金聯(深圳)科技有限公司) since June 2017.

## COMPANY SECRETARY

**Miss Ng Weng Sin**, aged 47, joined the Company in April 2017 as Chief Financial Officer, appointed as Company Secretary and Authorised Representative since January 2018. She was an Executive Director and a member of the Remuneration Committee up to 29 June 2018, the date of annual general meeting, as she decided not to offer herself for re-election as a Director in the annual general meeting due to re-arrangement of job. Miss Ng obtained her bachelor's degree of arts in accountancy in 1996, a master's degree of professional accounting in 2010, a master's degree of corporate finance in 2013 from the Hong Kong Polytechnic University and a master of business administration degree (Executive MBA programme) from the Chinese University of Hong Kong in 2015. She is also a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Prior to joining the Company, Miss Ng worked at Deloitte Touche Tohmatsu from August 1997 to September 2001. From September 2001 to May 2006, she worked at finance departments in two companies listed on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and a company listed on the NASDAQ Stock Market in the United States. From May 2006 to February 2010, she was the financial controller, the company secretary and authorised representative of China Information Technology Development Limited, a company listed on the Stock Exchange. From August 2010 to October 2013, she was the chief financial officer, the company secretary and the authorised representative of Billion Industrial Holdings Limited, a company listed on the main board of the Stock Exchange. From May 2014 to December 2015, Miss Ng was the chief financial officer of Xiwang Special Steel Company Limited and Xiwang Property Holdings Company Limited. From July 2014 to November 2015, Miss Ng was the company secretary and authorised representative of Xiwang Special Steel Company Limited and Xiwang Property Holdings Company Limited, both companies listed on the main board of the Stock Exchange.

* *The English translation is for identification purpose only*

The Company recognises that good corporate governance standards maintained throughout the Group serve as an effective risk management for the Company. The Board is committed to leading the Group growing in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standard. The Directors acknowledge their responsibility for preparing the Company's accounts.

## COMPLIANCE WITH THE LISTING RULES AND CORPORATE GOVERNANCE PRACTICES

The Stock Exchange issued the corporate governance code ("**CG Code**") 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**"), which provides code provisions and recommended best practices for corporate governance practices by listed companies. The Company considered that its prevailing structures and systems satisfied the applicable requirements of the code provisions of the CG Code. The Company will continuously enhance the corporate governance standards throughout the Group and ensure further standards to be put in place by reference to the recommended best practices whenever suitable and appropriate. The Company has complied throughout the year with the CG Code except for the following deviations:

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Being aware of the said deviation from code provision A.2.1 of the CG Code, but in view of the current rapid development of the Group, the Board believes that with the support of the management, vesting the roles of both chairman and chief executive in Mr. Zheng Jinwei can facilitate execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which consists of three independent non-executive Directors, the interests of the shareholders of the Company will be adequately and fairly represented. The Company will seek to re-comply with code provision A.2.1 of the CG Code by identifying and appointing a suitable and qualified candidate to the position of the chief executive in the future.

According to code provision A.5.1 of the CG Code, the company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. On 29 July 2018, following the resignation of Ms. Wong Yan Ki, Angel, the number of independent non-executive directors fell below the minimum number of three as required under Rule 3.10(1) of the Listing Rules and falling below one-third of the Board, as required under Rule 3.10A of the Listing Rules. Furthermore, the Company had two members in the audit committee, of which one is an independent non-executive Director, thus failing to meet the requirement that the majority of the audit committee members must be independent non-executive directors under code provision A.5.1 of the CG Code as contained in Appendix 14 to the Listing Rules. In addition, the audit committee members decreased from three to two, falling below the minimum number required under Rule 3.21 of the Listing Rules and the vacancy for chairman of audit committee is to be chaired by an independent non-executive director under Rule 3.21 of the Listing Rules.

On 30 November 2018, following the appointment of Mr. Deng Xiang, an independent non-executive Director, as the chairman of the audit committee of the Company (the "**Audit Committee**") and appointment of Mr. Jiang Jun, an independent non-executive director of the Company, as a member of the Audit Committee, the Company has re-complied with the requirements under Rule 3.21 of the Listing Rules.

On 21 December 2018, following the appointment of Mr. Wang Shuai as an independent non-executive Director, the Company has re-complied with the requirements under Rules 3.10(1) and 3.10A of the Listing Rules.

## CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors and the relevant employees of the Group. The Company, having made specific enquiry with all Directors, confirmed that all Directors have complied with the required standard of dealings set out therein throughout the year ended 31 December 2018.

## BOARD OF DIRECTORS

### Composition

As at the date of this annual report, the Board consists of 3 Executive Directors, 3 Non-executive Directors and 3 Independent Non-executive Directors:

**Executive Directors**

| | |
|---|---|
| Mr. Zheng Jinwei, *EMBA, BEng* *(Chairman and Chief Executive)* | |
| Mr. Ho Wai Kong *(Honorary Chairman)* | |
| Ms. He Qian, *CPA (PRC), EMBA, BAcc* | |
| Miss Ng Weng Sin, *FCPA (HK), EMBA, MCF, MPA* *(Chief Financial Officer)* | (resigned on 29 June 2018) |

**Non-executive Directors**

| | |
|---|---|
| Mr. Chen Limin, *Solicitor (PRC), LLB* | |
| Mr. Zhang Jianguo, *EMBA, BEng* | (appointed on 19 July 2018) |
| Mr. Xu Peng, *EMBA* | (appointed on 19 July 2018) |

**Independent Non-executive Directors**

| | |
|---|---|
| Mr. Deng Xiang, *BSc, BEcon, CPA (PRC)* | |
| Mr. Jiang Jun, *BAcc* | |
| Mr. Wang Shuai, *BEcon* | (appointed on 21 December 2018) |
| Ms. Wong Yan Ki, Angel, *FCPA (Aust.), FIPA, EMBA, BA* | (resigned on 29 July 2018) |

### *Attendance of the Directors at the Board and general meetings*

For the year ended 31 December 2018, 12 Board meetings and 2 general meetings have been held. Details of the attendance of the Directors are as follows:

| | Number of meetings attended/ Number of meetings held | |
|---|---|---|
| **Board members** | **Board meetings** | **General meetings** |
| **Executive Directors** | | |
| Mr. Zheng Jinwei, *EMBA, BEng* | 9/12 | 1/2 |
| Mr. Ho Wai Kong | 0/12 | 0/2 |
| Ms. He Qian, *CPA (PRC), EMBA, BAcc* | 1/12 | 0/2 |
| Miss Ng Weng Sin, *FCPA (HK), EMBA, MCF, MPA* (resigned on 29 June 2018) | 6/6 | 2/2 |
| **Non-executive Directors** | | |
| Mr. Chen Limin, *Solicitor (PRC), LLB* | 5/12 | 0/2 |
| Mr. Zhang Jianguo, *EMBA, BEng* (appointed on 19 July 2018) | 1/5 | N/A |
| Mr. Xu Peng, *EMBA* (appointed on 19 July 2018) | 1/5 | N/A |
| **Independent Non-executive Directors** | | |
| Mr. Deng Xiang, *BSc, BEcon, CPA (PRC)* | 10/12 | 0/2 |
| Mr. Jiang Jun, *BAcc* | 12/12 | 0/2 |
| Mr. Wang Shuai, *BEcon* (appointed on 21 December 2018) | N/A | N/A |
| Ms. Wong Yan Ki, Angel, *FCPA (Aust.), FIPA, EMBA, BA* (resigned on 29 July 2018) | 8/8 | 0/2 |

### *Responsibilities of the Board and management*

The Board reviews and approves corporate matters such as business strategies and investments, mergers and acquisitions, as well as the general administrative and management of the Group. The Board has overall responsibility in monitoring the process of corporate reporting and control system throughout the Group. The corporate reporting standards are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, the Securities and Futures Ordinance (the "**SFO**") and other applicable regulations are delegated to the company secretarial department. The management of the Company reviews and briefs the reporting systems with the Executive Directors regularly and the Audit Committee and the Remuneration Committee annually.

Save as disclosed in the section of "Biography of Directors and Company Secretary", there is no financial, business, family or other material/relevant relationship between the chairman and the chief executive and among the members of the Board.

***Continuous professional development of Directors***

According to the Code Provision A.6.5 of the CG Code, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. For the year ended 31 December 2018, guidance and training on directors' duties were provided to newly appointed Directors in the year. Study materials of the Listing Rules, and the Codes on Takeovers and Mergers and Share Buy-backs was provided to Directors. The Directors confirmed that they had taken the training and/or the studies.

## CHAIRMAN AND CHIEF EXECUTIVE

As at the date of this annual report, the Group does not at present separate the roles of the Chairman and the Chief Executive. The current Chairman is jointly performed by Mr. Zheng Jinwei and Mr. Ho Wai Kong who is the Honorary Chairman. Mr. Zheng Jinwei is both the Chairman of the Board and the Chief Executive. The Board considers that vesting the roles of Chairman and Chief Executive in the same individual is beneficial to the business prospects and management of the Group. The Board will review the need of appointing suitable candidate to assume the role of the Chief Executive when necessary.

## NON-EXECUTIVE DIRECTORS

The term of office under service contracts of non-executive Directors is three years and subject to retirement by rotation in accordance with the Bye-laws.

## BOARD COMMITTEES

There are three committees established under the Board, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

### Audit Committee

***Role and function***

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 those set out in the code provisions of the CG Code. Audit Committee must meet, at least twice a year, with the Company's external auditors.

The functions of the Audit Committee include but not limited to the following:

- Considering and reviewing the appointment, resignation and removal of external auditor and their fees;
- Reviewing the interim and annual results of the Group;
- Discussing with the external auditor problems and issues of significance during the annual audit of the Group; and
- Overseeing the financial reporting system, risk management and internal control systems of the Company.

### *Composition*

As at the date of this annual report, the Audit Committee comprises three members as follows:

| | |
|---|---|
| Mr. Deng Xiang *(Chairman)* | (appointed as Chairman on 30 November 2018) |
| Mr. Chen Limin | |
| Mr. Jiang Jun | (appointed as member on 30 November 2018) |
| Ms. Wong Yan Ki, Angel *(Chairman)* | (resigned as Independent Non-executive Director and Chairman on 29 July 2018) |

Mr. Chen Limin is Non-executive Director whereas the other two are Independent Non-executive Directors, two of whom possess recognised professional qualification in accounting and have proven experience in audit and accounting.

### *Attendance record*

For the year ended 31 December 2018, 4 Audit Committee meetings have been held. Details of the attendance of the Audit Committee members are as follows:

| **Audit Committee members** | **Number of meetings attended/ Number of meetings held** |
|---|---|
| Mr. Chen Limin | 2/4 |
| Mr. Deng Xiang *(Chairman)* (appointed as Chairman on 30 November 2018) | 4/4 |
| Mr. Jiang Jun (appointed as member on 30 November 2018) | N/A |
| Ms. Wong Yan Ki, Angel *(Chairman)* (resigned as Independent Non-executive Director and Chairman on 29 July 2018) | 3/3 |

### *Summary of the work done*

The work done by the Audit Committee for the year ended 31 December 2018 included:

- Reviewed the 2018 interim results and 2017 annual results of the Group;
- Discussed with the management of the Company over the completeness, fairness, adequacy and compliance of accounting standards and policies of the Group in the preparation of the 2018 interim and 2017 annual financial statements;
- Reviewed and discussed with the external auditors over the financial reporting of the Company; and
- Reviewed adequacy and effectiveness of internal control system maintained within the Group.

Each Audit Committee meeting was supplied with the necessary financial information of the Group for the Audit Committee members to consider, review and assess matters of significance arising from the work conducted.

The audited consolidated financial statements for the year ended 31 December 2018 have been reviewed by the Audit Committee.

## Remuneration Committee

### *Role and function*

The terms of reference of the Remuneration Committee follow the code provisions under the CG Code. The Remuneration Committee shall meet at least once a year.

The functions of the Remuneration Committee include but not limited to the following:

- Establishing and applying a formal and transparent procedure for setting policy on remuneration for executive Directors and senior management;
- Fixing the remuneration packages for all Directors and senior management; and
- Ensuring levels of remuneration of Directors commensurate with their qualifications and competencies, and that such remuneration is sufficient to attract and retain Directors and senior management.

### *Composition*

As at the date of this annual report, the Remuneration Committee comprises three members as follows:

Mr. Jiang Jun *(Chairman)*
Mr. Deng Xiang
Mr. Zheng Jinwei (appointed as member on 21 December 2018)
Miss Ng Weng Sin (resigned as Executive director and member on 29 June 2018)

Mr. Jiang Jun and Mr. Deng Xiang are Independent Non-executive Director whereas Mr. Zheng Jinwei is Executive Director.

### *Attendance record*

For the year ended 31 December 2018, 5 Remuneration Committee meetings have been held. Details of the attendance of the Remuneration Committee members are as follows:

| Remuneration Committee members | Number of meetings attended/ Number of meetings held |
|---|---|
| Mr. Jiang Jun *(Chairman)* | 5/5 |
| Mr. Deng Xiang | 5/5 |
| Mr. Zheng Jinwei (appointed as member on 21 December 2018) | N/A |
| Miss Ng Weng Sin (resigned as member on 29 June 2018) | 1/1 |

### *Summary of the work done*

The work done by the Remuneration Committee for the year ended 31 December 2018 included:

- Reviewed and approved the current remuneration policy and structure for all Directors' and senior management remuneration by reference to the prevailing rate with companies listed on the Main Board of the Stock Exchange in Hong Kong;
- Reviewed the remuneration package of the Executive Directors, Non-executive Directors and senior management;
- Made recommendations of the above remuneration policy and remuneration packages to the Board; and
- Approved the terms of Executive Directors' service contracts.

The Remuneration Committee meetings were supplied with the necessary information on specific remuneration package of Directors and senior management of the Group for the members to consider, review and make recommendation to the Board on the remuneration policy.

## Nomination Committee

### *Role and function*

The Nomination Committee was established on 29 March 2012. The terms of reference of the Nomination Committee follow the Code Provisions. The Nomination Committee shall meet at least once a year.

The functions of the Nomination Committee include but not limited to the following:

- Reviewing the structure, size, composition and the diversity (including the skills, knowledge and experience) of the Board at least annually;
- Assuring the independence of Independent Non-executive Directors;
- Identifying and nominating for the approval of the Board candidates to fill Board vacancies; and
- Identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships.

### *Composition*

As at the date of this annual report, the Nomination Committee comprises three members as follows:

Mr. Zheng Jinwei *(Chairman)*
Mr. Deng Xiang
Mr. Jiang Jun

Mr. Zheng Jinwei is Executive Director whereas Mr. Deng Xiang and Mr. Jiang Jun are Independent Non-executive Director.

### *Attendance record*

For the year ended 31 December 2018, 5 Nomination Committee meetings have been held. Details of the attendance of the Nomination Committee members are as follows:

| Nomination Committee members | Number of meetings attended/ Number of meetings held |
|---|---|
| Mr. Zheng Jinwei *(Chairman)* | 5/5 |
| Mr. Deng Xiang | 4/5 |
| Mr. Jiang Jun | 5/5 |

### *Summary of the work done*

The work done by the Nomination Committee for the year ended 31 December 2018 included:

- Reviewed the structure, size, composition and the diversity (including the skills, knowledge and experience) of the Board;
- Reviewed the independence of Independent Non-executive Directors; and
- Identified individuals suitably qualified to become Board members having taken into account the Company's board diversity policy and made recommendations to the Board on the selection of individuals nominated for directorships.

### *Board Diversity Policy*

The Nomination Committee adopted the board diversity policy on 2 July 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

### Corporate Governance Functions

#### *Role and function*

The Board is responsible for performing corporate governance functions (the "**Corporate Governance Functions**"). The terms of reference of Corporate Governance Functions pursuant to the Board resolution of the Company was passed on 29 March 2012. The Board shall hold Corporate Governance Functions meeting at least once a year.

The Corporate Governance Functions include but not limited to the following:

- Developing and reviewing the policies and practices of the Group on corporate governance and compliance with legal and regulatory requirements and making recommendations; and

- Reviewing and monitoring the training and continuous professional development of directors and senior management.

#### *Summary of the work done*

The work done by the Corporate Governance Functions for the year ended 31 December 2018 included:

- Developed and reviewed the policies and practices of the Group on corporate governance and compliance with legal and regulatory requirements and made recommendations;

- Reviewed and monitored the training and continuous professional development of directors and senior management; and

- Reviewed the Group's compliance with the CG Code and disclosure in the "Corporate Governance Report" of the Company.

## AUDITOR'S REMUNERATION

Remuneration paid to the Company's external auditor for annual audit services and services other than annual audit provided for the year ended 31 December 2018 was HK$1,030,000 and HK$500,000.

### Financial reporting

The Directors acknowledged that they are responsible for the preparation of the consolidated financial statements for the accounting period that are truly and fairly reflect the business, property and cash flows of the Company for that year.

The statement of the auditor regarding their reporting responsibility for the consolidated financial statements is set out in the Independent Auditor's Report on pages 46 to 51.

## COMPANY SECRETARY

Miss Ng Weng Sin was appointed as Company Secretary on 24 January 2018. For the year ended 31 December 2018, Miss Ng Weng Sin took no less than 15 hours of relevant professional training pursuant to rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

### Convening a special general meeting

Pursuant to Bye-law 58 of the Bye-laws, members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

### Putting enquiries to the Board

To ensure effective communication between the Board and the Shareholders, the Company has adopted a Shareholders' communication policy on 29 March 2012. Under the Shareholders' communication policy, the Company's information shall be communicated to the Shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's and the Stock Exchange's websites.

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

### Putting forward proposals at Shareholders' meeting

The number of Shareholders necessary for a requisition for putting forward a proposal at a Shareholders' meeting shall be any number of Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition. Shareholders may send a written requisition to the Board or Company Secretary at the Company's office in Hong Kong for putting forward any proposals to The Board.

## INVESTOR RELATIONS

To foster effective communications, the Company provided all necessary information to the Shareholders in its annual report and interim report. The Directors host the annual general meeting each year to meet the Shareholders and answer to their enquiries. The Directors make efforts to attend the annual general meeting so that they may answer any questions from the Shareholders.

The Directors, the Company Secretary or other appropriate members of senior management of the Company will also respond to inquiries from Shareholders and investors promptly.

## MAJOR CHANGES TO THE BYE-LAWS

For the year ended 31 December 2018, these were no amendments to the existing Memorandum of Association and Bye-laws.

On 20 February 2019, resolution in relation to the amendment of the Bye-laws to provide the Directors may fill the vacancy of a resigning auditor and fix the remuneration of the auditor in the event that office of auditor becomes vacant was duly passed in the general meeting.

## RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The Board oversees the Company's risk management and internal control systems on an ongoing basis. A review was conducted during the year on the Company's and its subsidiaries, risk management and internal control systems and to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. The Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. The Board considers these systems are well established to suit the Group's needs and are effective and adequate.

## HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group has established internal control procedures for the handling and dissemination of inside information in order to comply with Chapter 13 of the Listing Rules as well as Part XIVA of the SFO. The internal control mechanism includes information flow and reporting processes, confidentiality arrangements, disclosure procedures and training arrangements.

# Environmental, Social and Governance Report

## 1. ABOUT THIS REPORT

### 1.1. Reporting Period

This Environmental, Social and Governance ("**ESG**") Report illustrates and highlights the environmental and social performance of the Group from 1 January 2018 to 31 December 2018 unless otherwise stated.

### 1.2. Reporting Scope

The content of this ESG report summarises the Group's policies, management approach and performance with respect to corporate social responsibility. This report focuses on the Group's business in information technology, system integration services, development and operations of internet-based electronic platforms for the procurement of good and services ("**E-procurement**"), trading, and properties leasing and facility management services in the People's Republic of China ("**PRC**"). The Group has offices in Hong Kong, Shenzhen, Beijing, Jining and Weihai of Shandong, Wuhan of Hubei and Xining of Qinghai.

### 1.3. Reporting Framework

This ESG report follows the disclosure requirements as set out in the ESG Reporting Guide ("**ESG Guide**") contained in Appendix 27 to the Listing Rules and has complied with the "comply or explain" provision in the Listing Rules.

***Key Performance Index ("KPI") Reference Table***

| Reference KPI of the ESG Guide | Corresponding KPI in the sections of this report |
|---|---|
| **A Environmental** | |
| **A1 Emissions Policies and Compliances** | Emissions Policies and Compliance<br>Emissions Reduction<br>Air Emission<br>Hazardous and Non-hazardous Waste Reduction |
| **A2 Use of Resources** | Resources Conservation |

| Reference KPI of the ESG Guide | Corresponding KPI in the sections of this report |
|---|---|
| **A3 The Environment and Natural Resources** | Emissions Policies and Compliances<br>Resources Conservation |
| **B Social** | |
| **B1 Employment Policies and Compliances** | Employment Policies and Compliance<br>Labour Practices and Compliance |
| **B2 Health and Safety Policies and Compliances** | Occupational Health and Safety Policies and Compliance |
| **B3 Development and Training Policies** | Development and Training Policies |
| **B4 Labour Standards Policies and Compliances** | Employment Policies and Compliance<br>Labour Practices and Compliance<br>Development and Training Policies |
| **B5 Supply Chain Management Policies** | Supply Chain Management |
| **B6 Product Responsibility Policies and Compliances** | Product Responsibility and Quality Assurance<br>Protecting Intellectual Property Rights<br>Consumer Data Protection and Privacy |
| **B7 Anti-corruption Policies and Compliances** | Anti-corruption<br>Preventive Measures and Whistle-blowing Procedures |
| **B8 Community Investment Policies** | Community Care |

### 1.4. Stakeholders' Engagement and Materiality

Stakeholders' engagement is essential for the Group to understand its stakeholders' concerns and it also helps to identify risks and opportunities regarding sustainability. The Group communicates to its stakeholders throughout the year to collect ideas and feedback that are valuable to its future business development. Internal and external stakeholders have been involved in various regular activities to discuss and share opinions regarding the Group's operation and performance. The Group will continue to communicate closely with stakeholders to understand their expectations on its ESG performances.

### 1.5. Stakeholders' Feedback

The Group welcomes comments and feedbacks regarding its performance and approach on ESG matters, please email your questions, suggestions or share your views to cpp@cpphk.com.hk.

## 2. ENVIRONMENTAL PERFORMANCE

The Group's E-procurement and trading business operations are mainly conducted through the internet, few environmental impacts can be caused by office-based work. The Group does not involve in air (dust and residues), water, and noise pollution which are regulated under relevant environmental laws and regulations.

### 2.1. Emissions Policies and Compliance

The Group is committed to protecting the environment by proactively raising the environmental awareness of its employees and managing its business operations at all levels in an environmentally friendly manner. The Group complies with related environmental laws and regulations of Hong Kong and the PRC in air (dust and residues) and water emissions, solid waste management, noise pollution prevention and energy saving. The Group has policies to promote efficient use of energy and natural resources so as to reduce emissions.

### 2.2. Emissions Reduction

Carbon footprint generated from the Group's office operations will be disclosed in this report. Carbon footprint is defined as the total amount of direct and indirect emissions of greenhouse gas ("**GHG**") expressed in terms of equivalent amount of carbon dioxide ("**$CO_2$-e**") emission.

Scope 1 – Direct emissions from combustion of fuels,
Scope 2 – Energy indirect emissions; and
Scope 3 – Other indirect emissions.

Non-hazardous waste generated from operations will also be disclosed. To reduce GHG emissions, the Group has energy saving policies including deployment of energy-saving lightings, switching off idle lightings, computers and electrical appliances and equipment, monitoring water consumption, using of recycled paper, encouraging the use of public transport and using tele or video conferencing as an alternative to business travels.

Comprising the Group's headquarters, offices and the subsidiaries, the Group's operations cover a total floor area of 3,440.59 square meter ("**m²**") and is accounted for 100% of its GHG emissions.

### *GHG Emissions*

The total net GHG emissions generated by the Group were 178.22 tonnes of carbon dioxide equivalent ("**$tCO_2$-e**") (mainly carbon dioxide, methane and nitrous oxide) (2017: 168.78 $tCO_2$-e). With the total audited area of 3,440.59 $m^2$ (2017: 3,285.14 $m^2$) the total annual emission intensity due to energy usage was 0.052 $tCO_2$-e/$m^2$ (2017: 0.051 $tCO_2$-e/$m^2$). Gasoline usage by the Group's motor vehicles used for employee commuting and electricity consumption in the offices are the major GHG emissions of the Group.

The following table highlights the carbon footprint of the Group:

| **Scope** | **Sources of GHG emissions** | 2018 | | 2017 | | |
|---|---|---|---|---|---|---|
| | | GHG* emissions (in $tCO_2$-e) | Distribution | GHG* emissions (in $tCO_2$-e) | Distribution | % change |
| 1 | Mobile - Unleaded gasoline consumed by the Group's motor vehicles | 23.00 | 12.91% | 23.68 | 14.03% | -2.87% |
| 2 | Purchased electricity | 145.94 | 81.89% | 135.56 | 80.32% | 7.66% |
| 3 | Disposal of paper waste | 8.07 | 9.28<br>5.20% | 5.51 | 9.54<br>5.65% | -2.73% |
| | Fresh water processing | 0.86 | | 2.77 | | |
| | Sewage water processing | 0.35 | | 1.26 | | |
| | **Total GHG emissions** | **178.22** | | **168.78** | | **5.59%** |
| | **Carbon emission intensity** | **0.052** | | **0.051** | | **1.96%** |

* The GHG is calculated according to the 'Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong' jointly published by Environmental Protection Department and Electrical and Mechanical Services Department.

### *Air emission*

Due to the business nature, no substantial hazardous waste was produced by the Group during the reporting period. Whereas air emission generated by the Group's motor vehicles is listed in the following table.

| Types of Emissions | Emission Data |
|---|---|
| Sulphur Dioxide | 0.12 kg |

### *Hazardous and Non-hazardous Waste Reduction*

Due to the business nature, no substantial hazardous waste was produced by the Group during the reporting period. Paper and its related stationary were the only non-hazardous waste generated by the Group. It was recorded that approximately 1,680.60 kg of paper (2017: 1,147.38 kg) was used in the offices for administration purposes. Paper waste was collected by the building management for recycling and disposal. Employees are practicing double sided printing and actively using digital technology to replace papers. The Group will continue to monitor its paper reuse and recycling efficiency to reduce usage and disposal.

## 2.3. Resources Conservation

### *Energy Consumption - Electricity*

The total electricity consumption was 155,013.13 kilowatt-hours ("**kWh**") (2017: 143,039.13 kWh), it was attributed to the electricity usage of lightings, air-conditioning, and electrical appliances and equipment. with the total operation area of 3,440.59 $m^2$, the energy intensity was 45.05 kWh/$m^2$. The Group has adopted various management measures including the use of energy saving lightings and switching off idle air-conditioning, lightings and equipment to reduce energy use.

### *Fossil Fuel Consumption - Gasoline*

The air emission of the Group's vehicles may affect the people and neighbouring communities through its environmental impact. A total of 8,495.33 litres of gasoline (2017: 8,748.45 litres) were being used by the Group's motor vehicles. While the Group encourages its employees to travel by public transportations, other measures such as regular vehicle maintenance are conducted, and the use of electrical vehicles shall be considered in the future.

### *Water Consumption*

The total water consumption of the Group was 2,033.28 $m^3$ (2017: 7,315.09 $m^3$) The water usage of the Group's headquarters and the its office in Beijing's were not recorded as it is included in the management fee and the Group did not have the relevant information. Nevertheless, the Group is committed to minimising its water consumption to the best of its capabilities to conserve this precious natural resource.

## 3. SOCIAL PERFORMANCE

### 3.1. Employment Policies and Compliance

Employees are regarded as the Group's valuable assets as they play a vital role in providing good and quality service experience for customers. Human resource is the key to the Group's future development and success. The Group aims to provide a healthy, happy and harmonious workplace by ensuring their rights and well-being. As at 31 December 2018, the employee composition of the Group is listed in the following table.

| **Employee Structure** | | **2018** | **2017** |
|---|---|---|---|
| Total number of employees | | 133 | 114 |
| **By gender** | Male | 70.7% | 72.8% |
| | Female | 29.3% | 27.2% |
| **By age** | 18-25 | 24.0% | 24.6% |
| | 26-35 | 47.4% | 43.0% |
| | 36-45 | 21.8% | 21.9% |
| | 46-55 | 5.3% | 7.9% |
| | 56 or above | 1.5% | 2.6% |

### 3.2. Labour Practices and Compliance

The Group complies with the laws and regulations relating to employment, child and forced labour practices. A competitive remuneration and benefit package is structured to encourage a positive and stable workforce with a wide range of additional benefits such as medical and dental insurance, educational allowance, meal allowances and performance bonus. The Group's recruitment procedures are strictly abided by the guidelines as set out by its Human Resource Department, so that suitable candidates are hired in accordance to the job requirement and candidates' expectation. During the reporting period, there was no incidence of work stoppages, labour disputes, litigation, claims, administrative action or arbitration against the Group.

### 3.3. Occupational Health and Safety Policies and Compliance

Ensuring the occupational health, safety and well-being of its employees is important as human resource is one of the Group's most valuable assets. In compliance with related occupational health and safety regulations in Hong Kong and PRC, instructions and guidelines on employees' health and safety precautions are developed and communicated to maintain a healthy and safe working environment for employees. During the Reporting Period, the Group was not aware of any material non-compliance with health and safety related laws and regulations and there was no work-related injury.

### 3.4. Development and Training Policies

The Group aims to create an environment of continuous improvement in which employees are encouraged to pursue excellent performance at work and career development. The Group provides equal opportunities for employees in respect of recruitment, training and development, and job advancement. The Group provides a wide range of inhouse training aiming to develop more competent and skilful employees. Besides, the Group encourages lifelong learning and offers educational allowances to its employees for knowledge enhancement and career development. The objective of the Group's human resource management is to reward and recognise performing employees by reviewing their salaries and wages through the annual performance appraisal system based on employees' performance, experience and qualifications.

### 3.5. Supply Chain Management

The Group's procurement policy is to ensure that products and services are procured in an honest, competitive and transparent manner. Conscious attention is being paid to the selection of suppliers of product and services. The Group believes that a strong establishment of a cooperation relationship with suppliers would enhance the continuous improvement on the Group's operational flow and service quality. Products and services suppliers are selected based on tender terms and selection criteria including product quality, price stability, delivery arrangement, customer service quality and payment terms. Sourcing for supplies is generally executed by the Group's Procurement Department and there is a total of 145 selected suppliers in the approved suppliers' list. The Procurement Department would regularly review the performance of the suppliers and communicate the updated suppliers' list to employees.

### 3.6. Product Responsibility and Quality Assurance

The Group is committed to providing high quality and responsible services to its customers. To formalize the commitment, the Group requires suppliers, who would want to join its E-procurement platform, to register and provide all necessary business information such as their business licence, address and the legal representative of the business entity before they are being granted a website security certificate to be listed on the E-procurement platform. On the other hand, a quality guarantee deposit is given to its E-procurement customers for after sales service quality assurance purpose. Besides, system training and technical support are provided on a customer need basis. A customer service hotline is also available to take enquires and feedback from customers. During the reporting period, there was no significant complaint in service quality and delivery.

### *Protecting Intellectual Property Rights*

The Group registered its corporate logo and domain names as they are important to its brand and corporate image. The Group complies with the intellectual property (the "**IP**") rights regulations. As at the date of this report, there was no material infringement of the IP rights and the Group is confident that all reasonable measures have been taken to prevent any infringement of its own IP rights and the IP rights of third parties.

### *Consumer Data Protection and Privacy*

The Group's code of ethics stated the requirement of employees to ensure the safekeeping of all personal data, trade secrets and proprietary information they have accessed to or collected from customers, suppliers and business partners. The Group complies with the Personal Data (Privacy) Ordinance and is strictly abided by the regulation in the collection, disclosure, usage, retention, and storage of data to ensure data integrity and confidentiality.

## 3.7. Anti-corruption

To uphold and promote the highest standards of ethical corporate practices and integrity when engaging in the Group's business activities, the code of ethics guidelines stipulated that all employees including the directors must comply with the applicable laws and regulations with regards to corruption, extortion, fraudulent activities and conflict of interest in every legislation in which the Group operates. Directors and employees should not offer to, solicit or accept anything of material value from their colleagues, customers, suppliers or competitors of the Group to ensure businesses are conducted in an honest and fair manner. The Group complies with relevant laws and regulations of anti-corruption law of Hong Kong, Criminal law of the PRC《中華人民共和國刑法》and the Anti-Unfair Competition Law of the PRC《中華人民共和國不正當競爭法》.

### *Preventive Measures and Whistle-blowing Procedures*

The Group encourages whistleblowing whereas an employee could report suspected corruption, misconduct, conflict of interest, or malpractice in strict confidence. All suspected frauds will be investigated by the Audit Committee in strict confidence. Employees are given a copy of the Group's code of ethics so that they understand their obligation to adhere to the ethical standard of the Group. During the reporting period, there was no related fraudulent cases reported against the Group.

## 3.8. Community Care

The Group recognises the importance of corporate social responsibility. The Group is committed to conducting business in every aspect to minimise any potential environmental and social impact to its stakeholders especially its employees and the community members. For the year ended 31 December 2018, the Group has made a donation to a charity organisation focusing on education. The Group will continue to explore opportunities in contributing to educational and environmental related programs in future charity or community events to play a part in making a difference and strengthening the Hong Kong community.

# Directors' Report

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the public procurement related businesses, including (i) the development and operation of electronic public procurement platforms and provision of procurement information and other added value services to users of the procurement platforms. Services include such as the supplier authentication, financial services, and supply chain management, etc.; (ii) trading business; and (iii) rental income.

## BUSINESS REVIEW

The business review of the Group for the year is set out in the sections of Financial Summary, Chairman's Statement, Management Discussion and Analysis and Corporate Governance Report and the paragraphs below.

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the SFO for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. No important event affecting the Group has occurred since the end of the year.

## KEY RISK FACTORS

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

### Impact of Local and International Regulations

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

### Third-Party Risks

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

## ENVIRONMENTAL PROTECTION

The Group is responsible for its impact to the environment arising from its business operations. The Group is committed to maintaining sustainable working practices and pays close attention to ensure all resources are efficiently utilised. During the year ended 31 December 2018, to the best knowledge of the Directors, the Group has complied with relevant laws and regulations that have a significant impact on the Group.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

## SEGMENT INFORMATION

An analysis of the Group's results, assets and liabilities by segment for the year is set out in Note 10 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss on page 52.

## DIVIDEND

### *Dividend Policy*

The principle of dividend policy is to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth. In determining the recommended dividends, the Board will consider:

- the Group's actual and expected financial results;
- the economic conditions and other internal and external factors that may have an impact on the business or financial performance and position of the Group;
- the current and future operations, liquidity position, capital requirements and investment of the Group; and
- any other factors that the Board deems appropriate.

There is no fixed dividend payout ratio and there is no assurance that dividends will be paid in any particular amount for any given period.

### *Dividend for the Year*

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

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 154.

## NO CARRYFORWARD EFFECT OF QUALIFIED OPINION ON CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

The management of the Company have discussed with auditors and confirmed that the qualified opinion on consolidated statement of profit or loss for the year ended 31 December 2017 does not have the carrying forward effect in the year of 2018 and will not have the carrying forward effect to the year of 2019. The Audit Committee agreed with the management's view.

## PROPERTY, PLANT AND EQUIPMENT, PREPAID LEASE PAYMENTS AND INVESTMENT PROPERTIES

Details of the movements in the property, plant and equipment, prepaid lease payments and investment properties of the Group during the year are set out in Notes 18, 19 and 20 to the consolidated financial statements respectively.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's capital and share options during the year are set out in Notes 28 and 31 to the consolidated financial statements respectively.

## RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in Note 29 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

## EQUITY-LINKED AGREEMENTS

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

### Share Option Scheme

The Company adopted a share option scheme pursuant to the ordinary resolution passed by the Shareholders on 13 June 2013 (the "**Scheme**").

The purpose of the Scheme is to attract and retain quality personnel and provide them with incentive to contribute to the business and operation of the Group.

Participants under the Scheme include Directors and employees of the Group.

The principal terms of the Scheme are summarised as follows:

The Scheme was adopted for a period of 10 years commencing from 13 June 2013 and was due to expire on 12 June 2023.

Share options may be granted without any initial payment. The subscription price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:

(i) the nominal value of the shares;

(ii) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the share option; and

(iii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the share option.

Under the Scheme, the total number of shares which may be allotted and issued upon exercise of all share options to be granted under the Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the Scheme provided that, inter alia, the Company may seek approval of the Shareholders at a general meeting to refresh the general scheme limit. The maximum number of shares in respect of which share options may be allotted and issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme may not, subject to Shareholders' approval, exceed 30% of the share capital of the Company in issue from time to time.

During the year ended 31 December 2018, 8,298,000 options which were granted on 22 December 2015 were lapsed i.e. forfeited and expired, and 133,380,000 options which were granted on 25 May 2018 were exercised on 1 June 2018.

#### *Refreshment of the scheme limit*

At the annual general meeting held on 29 June 2018, a resolution was duly passed that 174,489,725 share options, being 10% scheme limit on the number of shares which may be allotted and issued upon exercise of the options to be granted under the Scheme.

Details of the share options movements during the year under the New Scheme are as follows:

| Name of category | Date of grant of share options | Number of share options: Outstanding as at 01.01.2018 | Granted during the Year | Exercised during the Year | Lapsed during the year | Cancelled during the Year | Outstanding as at 31.12.2018 | Vesting period | Validity period of share options | Exercise price (HK$) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Zheng Jinwei | 22.12.2015 | 2,000,000 | — | — | 2,000,000 | — | — | 50% of the Options shall vest on 22.12.2015 and 50% of the Options shall vest on 22.06.2017 | 22.12.2015 to 21.12.2018 | 2.28 |
| Ho Wai Kong | 22.12.2015 | 2,000,000 | — | — | 2,000,000 | — | — | 50% of the Options shall vest on 22.12.2015 and 50% of the Options shall vest on 22.06.2017 | 22.12.2015 to 21.12.2018 | 2.28 |
| He Qian | 22.12.2015 | 500,000 | — | — | 500,000 | — | — | 50% of the Options shall vest on 22.12.2015 and 50% of the Options shall vest on 22.06.2017 | 22.12.2015 to 21.12.2018 | 2.28 |
| Chen Limin | 22.12.2015 | 500,000 | — | — | 500,000 | — | — | 50% of the Options shall vest on 22.12.2015 and 50% of the Options shall vest on 22.06.2017 | 22.12.2015 to 21.12.2018 | 2.28 |
| Wong Yan Ki, Angel | 22.12.2015 | 500,000 | — | — | 500,000 | — | — | 50% of the Options shall vest on 22.12.2015 and 50% of the Options shall vest on 22.06.2017 | 22.12.2015 to 21.12.2018 | 2.28 |
| Deng Xiang | 22.12.2015 | 500,000 | — | — | 500,000 | — | — | 50% of the Options shall vest on 22.12.2015 and 50% of the Options shall vest on 22.06.2017 | 22.12.2015 to 21.12.2018 | 2.28 |
| Subtotal | | 6,000,000 | — | — | 6,000,000 | — | — | | | |
| **Employees and others** | 25.05.2018 | — | 133,380,000 | 133,380,000 | — | — | — | — | 25.05.2018 to 24.05.2021 | 0.10 |
| | 22.12.2015 | 2,298,000 | — | — | 2,298,000 | — | — | 50% of the Options shall vest on 22.12.2015 and 50% of the Options shall vest on 22.06.2017 | 22.12.2015 to 21.12.2018 | 2.28 |
| Subtotal | | 2,298,000 | 133,380,000 | 133,380,000 | 2,298,000 | — | — | | | |
| **Total** | | **8,298,000** | **133,380,000** | **133,380,000** | **8,298,000** | **–** | **–** | | | |

## DIRECTORS

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

**Executive Directors**

Mr. Zheng Jinwei, *EMBA, BEng (Chairman and Chief Executive)*
Mr. Ho Wai Kong *(Honorary Chairman)*
Miss Ng Weng Sin, *FCPA (HK), EMBA, MCF, MPA (Chief Financial Officer)* (resigned on 29 June 2018)*
Ms. He Qian, *CPA (PRC), EMBA, BAcc*

**Non-executive Directors**

Mr. Chen Limin, *Solicitor (PRC), LLB*
Mr. Zhang Jianguo, *EMBA, BEng* (appointed on 19 July 2018)
Mr. Xu Peng, *EMBA* (appointed on 19 July 2018)

**Independent Non-executive Directors**

Mr. Deng Xiang, *BSc, BEcon, CPA (PRC)*
Mr. Jiang Jun, *BAcc*
Mr. Wang Shuai, *BEcon* (appointed on 21 December 2018)
Ms. Wong Yan Ki, Angel, *FCPA (Aust.), FIPA, EMBA, BA* (resigned on 29 July 2018)*

* Miss Ng Weng Sin was a Director up to 29 June 2018, the date of annual general meeting, as she decided not to offer herself for re-election as a Director in the annual general meeting due to re-arrangement of job. Ms. Weng Yan Ki, Angel, resigned as Independent Non-executive Director due to her other personal commitments.

In accordance with Bye-law 87(1) of the Company's Bye-laws, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, the number nearest but not less than one-third, shall retire from office by rotation. Accordingly, Mr. Zheng Jinwei and Mr. Deng Xiang will retire by rotation at the forthcoming annual general meeting of the Company. Each of Mr. Zheng Jinwei and Mr. Deng Xiang, being eligible, has offered themselves for re-election.

In accordance with Bye-law 86(2) of the Company's Bye-laws, any Director appointed as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Thus, Mr. Zhang Jianguo, Mr. Xu Peng and Mr. Wang Shuai, being newly appointed Directors will retire at the forthcoming annual general meeting and, being eligible, offer themselves for-re-election.

The Company has received from each of the Independent Non-executive Directors an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors are independent to the Company.

## DIRECTORS' SERVICE CONTRACTS

All Directors have entered into formal service contracts with the Company for a term of 3 years and are subject to retirement by rotation and re-election at the general meetings of the Company in accordance with the Bye-laws.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting have a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Save as disclosed in this annual report, no emoluments have been paid by the Group to any directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office for the year.

## INDEMNITY OF DIRECTORS

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

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed herein, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company or his connected entities had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

## DISCLOSURE OF CHANGES IN INFORMATION OF DIRECTORS

Pursuant to rule 13.51B (1) of the Listing Rules, the changes of information on Directors between 30 August 2018 (after the date of approval of the Company's 2018 Interim Report) and 29 March 2019 (being the date of approval of 2018 Annual Report) are as follows:

1. Mr. Deng Xiang and Mr. Jiang Jun, Independent Non-executive Directors of the Company, have been appointed as the Chairman from a member and a member of the Audit Committee of the Company respectively, with effect from 30 November 2018.

2. Mr. Wang Shuai was appointed as an Independent Non-executive Director of the Company with effect from 21 December 2018.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR 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 or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

### Long positions in ordinary shares of the Company

| | | Number of shares/underlying shares in the Company | |
|---|---|---|---|
| **Name of Directors** | **Capacity** | **Interest in shares** | **Total interests as to percentage of the issued share capital of the Company as at 31.12.2018 (approximately)** |
| Zheng Jinwei | Corporate interest | 6,000,000 *(Note 1)* | 0.34% |
| Ho Wai Kong | Corporate interest | 63,167,272 *(Note 2)* | 3.62% |
| | Beneficial interest | 4,048,728 | 0.23% |
| | Spousal interest | 27,934,800 *(Note 3)* | 1.60% |

Notes:

1. These 6,000,000 shares are held by Samway International Enterprise Limited which is incorporated in British Virgin Islands with limited liability and wholly-owned by Mr. Zheng Jinwei.

2. Mr. Ho Wai Kong is interested in 63,167,272 shares under controlled corporation, of which 63,117,272 shares are held by Master Top Investments Limited, an associated corporation of the Company, and 50,000 shares are held by Similan Limited. Both companies are beneficially owned by Mr. Ho Wai Kong.

3. Mr. Ho Wai Kong is the spouse of Ms. Guo Binni and is therefore deemed to be interested in 27,934,800 shares held by Ms. Guo Binni under the SFO.

4. As at 31 December 2018, the issued share capital of the Company was 1,744,897,254 shares.

Save as disclosed above, as at 31 December 2018, none of the Directors nor their associates had any interests or short positions in any shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY

As at 31 December 2018, according to the register of interests required to be kept by the Company under Section 336 of the SFO, the following persons, other than the Directors or chief executives of the Company, had an interest or short position in the shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

### Long positions in ordinary shares of HK$0.1 each of the Company

| Name of Shareholders | Capacity | Number of shares interested | Percentage of the issued share capital as at 31 December 2018 |
|---|---|---|---|
| Zhao Liuqing | Beneficial interest | 268,586,000 | 15.39% |
| Guo Binni (Note) | Beneficial interest | 27,934,800 | 1.60% |
| | Spousal interest | 67,216,000 | 3.85% |

Notes: Ms. Guo Binni is the spouse of Mr. Ho Wai Kong and is therefore deemed to be interested in 63,167,272 shares under his controlled corporation. She is also deemed to be interested in 4,048,728 shares held by Mr. Ho Wai Kong.

Save as disclosed above, the Company had not been notified of any other person (other than a Director or chief executive of the Company) who had an interest (whether direct or indirect) in 5% or more of the shares comprised in the relevant share capital or a short position which were required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO as at 31 December 2018.

## COMPETING INTERESTS

As at 31 December 2018, none of the Directors or substantial Shareholders or any of their respective close associates has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interests with the Group.

## RELATED PARTY TRANSACTIONS

Please refer to note 41 to the consolidated financial statements in this annual report for details of the related party transactions pursuant to HKFRSs and those related party transactions disclosed in note 41 are not considered as connected transactions, or are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 64% of the total sales for the year, in which sales to the largest customer represented approximately 46% of the total sales of the year. One of the top five customers which accounted for 8% of total sales is a non-controlling shareholder of a subsidiary of the Group.

The cost of sales mainly consists of purchase, depreciation, staff cost and sub-contractor fee. The purchases from the Group's five largest suppliers for trading and services rendered, amounted to 98% of the total purchases for the year, in which purchases from the largest suppliers represented approximately 90% of the total purchases of the year.

None of the Directors, their close associates or any substantial shareholder has an interest in the major suppliers or customers noted above.

## MANAGEMENT CONTRACTS

Save as disclosed herein, no contract 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.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules for the year ended 31 December 2018 and up to the date of this report.

## CHANGE OF AUDITORS

SHINEWING (HK) CPA Limited resigned as the auditors of the Company with effect from 29 January 2018 whereas RSM Hong Kong has been appointed as the new auditors of the Company to fill the casual vacancy.

The consolidated financial statements of the Group for the year ended 31 December 2017 and 2018 were audited by RSM Hong Kong.

RSM Hong Kong will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Hong Kong as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

For and on behalf of the Board

**Zheng Jinwei**
*Chairman*

Hong Kong, 29 March 2019

# Independent Auditor's Report

**TO THE SHAREHOLDERS OF CHINA PUBLIC PROCUREMENT LIMITED**
*(Incorporated in Bermuda with limited liability)*

## QUALIFIED OPINION

We have audited the consolidated financial statements of China Public Procurement Limited and its subsidiaries (the "**Group**") set out on pages 52 to 153, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, 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, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, 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 Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR QUALIFIED OPINION

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2017 (the "**2017 Financial Statements**"), which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was modified because of the possible effect of the limitation on scope of our audit including (i) impairment losses for trade and other receivables of approximately HK$6,589,000 and loan receivables of approximately HK$40,000,000; and (ii) impairment losses for a deposit paid for potential acquisition of a subsidiary of approximately HK$15,000,000, trade and other receivables of approximately HK$25,357,000, loan receivables of approximately HK$200,000 and amounts due from an ex-substantial shareholder and its subsidiaries of approximately HK$70,686,000, details of which are set out in our auditor's report dated 29 March 2018. Any adjustments to the figures might have a consequential effect on the results for the year ended 31 December 2017. Our opinion on current year's consolidated financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

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

### Material Uncertainty Related to Going Concern

We draw attention to note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss and net operating cash outflows of approximately HK$23,778,000 and HK$15,866,000 respectively during the year ended 31 December 2018, and as at 31 December 2018, the Group had net current liabilities of approximately HK$21,514,000. As stated in note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. 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. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. The key audit matters we identified are:

1. Valuation of investment properties

2. Impairment assessment of intangible assets

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| 1. Valuation of investment properties<br><br>Refer to notes 5(b)(iv) and 20 to the consolidated financial statements.<br><br>Management has estimated the fair value of the Group's investment properties to be approximately HK$266,776,000 as at 31 December 2018 and a fair value gains on investment properties of approximately HK$1,243,000 was recorded in the consolidated statement of profit or loss for the year ended 31 December 2018. An independent external valuation was obtained in order to support management's estimate.<br><br>The valuation of the investment properties involved significant unobservable inputs which require significant management judgement. | Our procedures in relation to this matter included:<br><br>— Evaluating the independent external valuer's competence, capabilities and objectivity;<br><br>— Assessing the appropriateness of the valuation methodology used;<br><br>— Assessing the reasonableness of the key assumptions based on our knowledge of the property market and the characteristics of the properties;<br><br>— Checking on a sample basis, the accuracy and relevance of the input data used; and<br><br>— Assessing the adequacy of the disclosures in relation to the fair value measurement of the investment properties. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| 2. Impairment assessment of intangible assets | Our procedures in relation to this matter included: |
| Refer to notes 5(b)(iii) and 21 to the consolidated financial statements.<br><br>As at 31 December 2018, the Group had intangible assets with carrying amount of approximately HK$8,852,000 which were attributable to the public procurement segment.<br><br>Management has performed impairment assessment on these assets by estimating the value in use of the public procurement cash-generating unit (the "**CGU**") and no impairment loss of intangible assets was recognised in profit or loss during the year. An independent external valuation was obtained in order to support management's estimate.<br><br>The value in use calculations required significant management judgement in respect of estimated future cash flows expected to arise from the CGU and other economic assumptions such as discount rate. | — Evaluating the independent external valuer's competence, capabilities and objectivity;<br><br>— Assessing the integrity of the value in use models;<br><br>— Challenging the reasonableness of management's key assumptions based on our knowledge of the business and industry;<br><br>— Checking input data to supporting evidence including approved budgets and considering the accuracy of management's past budgets;<br><br>— Assessing the appropriateness of the discount rate adopted by management with the assistance of our internal valuation specialists; and<br><br>— Performing sensitivity analysis to assess the impact of reasonably possible changes. |

## 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. As described in the Basis for Qualified Opinion section above, certain impairment losses made in the year ended 31 December 2017 should be recorded in prior year instead and we were unable to obtain sufficient appropriate evidence about the opening balances of deposit paid for potential acquisition of a subsidiary, trade and other receivables, loan receivables and amounts due from an ex-substantial shareholder and its subsidiaries which would have a consequential effect on the Group's financial performance for the year ended 31 December 2017. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

## 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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 judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Liu Eugene.

**RSM Hong Kong**
*Certified Public Accountants*

Hong Kong
29 March 2019

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

| | Notes | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 8 | **68,289** | 64,837 |
| Cost of sales | | **(45,471)** | (47,608) |
| **Gross profit** | | **22,818** | 17,229 |
| Other income and gains | 9 | **6,579** | 26,482 |
| Administrative expenses | | **(55,553)** | (53,005) |
| Impairment loss for deposit paid for potential acquisition of a subsidiary | | **—** | (15,000) |
| Impairment loss for trade and other receivables | | **(665)** | (28,778) |
| Loss on early redemption of convertible bonds | | **—** | (3,994) |
| Reversal of impairment loss/(impairment loss) for amounts due from an ex-substantial shareholder and its subsidiaries | | **710** | (72,495) |
| Reversal of impairment loss/(impairment loss) for loan receivables | | **4,876** | (40,207) |
| Write-off of an associate | | **—** | (1,181) |
| Write-off of other prepayments | | **(26)** | — |
| **Loss from operations** | | **(21,261)** | (170,949) |
| Finance costs | 11 | **(3,009)** | (11,164) |
| **Loss before tax** | | **(24,270)** | (182,113) |
| Income tax credit | 12 | **492** | 2,569 |
| **Loss for the year** | 13 | **(23,778)** | (179,544) |
| **Attributable to:** | | | |
| Owners of the Company | | **(24,402)** | (176,395) |
| Non-controlling interests | | **624** | (3,149) |
| | | **(23,778)** | (179,544) |
| **Loss per share** | 17 | | (Restated) |
| Basis (HK cents per share) | | **(14.44)** | (128.05) |
| Diluted (HK cents per share) | | **N/A** | N/A |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

| | 2018 | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Loss for the year** | **(23,778)** | (179,544) |
| **Other comprehensive income:** | | |
| *Items that will not be reclassified to profit or loss:* | | |
| Fair value changes of equity investment at fair value through other comprehensive income ("**FVTOCI**") | **(1,444)** | — |
| *Items that may be reclassified to profit or loss:* | | |
| Exchange differences on translating foreign operations | **(12,809)** | 16,039 |
| Fair value changes of available-for-sale financial assets | **—** | (1,093) |
| **Other comprehensive income for the year, net of tax** | **(14,253)** | 14,946 |
| **Total comprehensive income for the year** | **(38,031)** | (164,598) |
| **Attributable to:** | | |
| Owners of the Company | **(38,853)** | (161,070) |
| Non-controlling interests | **822** | (3,528) |
| | **(38,031)** | (164,598) |

# Consolidated Statement of Financial Position

As at 31 December 2018

| | | 2018 | 2017 |
|---|---|---|---|
| | Notes | HK$'000 | HK$'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **2,421** | 3,442 |
| Prepaid land lease payments | 19 | **4,227** | 4,544 |
| Investment properties | 20 | **266,776** | 279,052 |
| Intangible assets | 21 | **10,162** | 10,813 |
| Investment in an associate | 22 | **—** | — |
| Available-for-sale financial assets | 23 | **—** | 4,871 |
| **Total non-current assets** | | **283,586** | 302,722 |
| **Current assets** | | | |
| Prepaid land lease payments | 19 | **97** | 102 |
| Inventories — raw materials | | **312** | 480 |
| Trade and other receivables | 24 | **11,342** | 21,312 |
| Loan receivables | 25 | **2,286** | 25,221 |
| Financial assets at fair value through profit or loss ("**FVTPL**") | 26 | **2,515** | 4,564 |
| Equity instruments at FVTOCI | 23 | **3,191** | — |
| Current tax assets | | **—** | 617 |
| Pledged bank deposits | 27 | **—** | 96,080 |
| Bank and cash balances | 27 | **26,344** | 43,270 |
| **Total current assets** | | **46,087** | 191,646 |
| **TOTAL ASSETS** | | **329,673** | 494,368 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 28 | **174,490** | 161,152 |
| Reserves | 30 | **14,752** | 74,583 |
| Equity attributable to owners of the Company | | **189,242** | 235,735 |
| Non-controlling interests | | **(5,252)** | (6,073) |
| **Total equity** | | **183,990** | 229,662 |

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank and other borrowings | 32 | **34,290** | 40,834 |
| Deferred income | 33 | **4,558** | 5,090 |
| Deferred tax liabilities | 34 | **39,234** | 42,383 |
| **Total non-current liabilities** | | **78,082** | 88,307 |
| **Current liabilities** | | | |
| Bank and other borrowings | 32 | **4,572** | 13,211 |
| Trade and other payables | 35 | **25,073** | 125,818 |
| Contract liabilities | 36 | **1,817** | — |
| Amounts due to an ex-substantial shareholder and its subsidiaries | 37 | **2,682** | 2,816 |
| Current tax liabilities | | **33,457** | 34,554 |
| **Total current liabilities** | | **67,601** | 176,399 |
| **TOTAL EQUITY AND LIABILITIES** | | **329,673** | 494,368 |
| **Net current (liabilities)/assets** | | **(21,514)** | 15,247 |
| **Total assets less current liabilities** | | **262,072** | 317,969 |

Approved by the Board of Directors on 29 March 2019 and are signed on its behalf by:

**Zheng Jinwei** **He Qian**

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Merger reserve | Share-based payments reserve | Statutory reserve | Foreign currency translation reserve | Revaluation reserve | Convertible bonds reserve | Investment revaluation reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
| | HK$'000 | HK'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2017 | 134,293 | 7,117,171 | 8,390 | 56,277 | 15,654 | 135,657 | 3,492 | 5,139 | — | (7,143,831) | 332,242 | (1,593) | 330,649 |
| Total comprehensive income for the year | — | — | — | — | — | 16,418 | — | — | (1,093) | (176,395) | (161,070) | (3,528) | (164,598) |
| Issue of shares by subscription (note 28(b)) | 26,859 | 36,448 | — | — | — | — | — | — | — | — | 63,307 | — | 63,307 |
| Redemption of convertible bonds | — | — | — | — | — | — | — | (5,139) | — | 5,139 | — | — | — |
| Appropriation to statutory reserve | — | — | — | — | 90 | — | — | — | — | (90) | — | — | — |
| Share-based payments | — | — | — | 304 | — | — | — | — | — | — | 304 | — | 304 |
| Transfer of reserve upon lapse of share options | — | — | — | (47,500) | — | — | — | — | — | 47,500 | — | — | — |
| Deemed acquisition of equity interests of a subsidiary from non-controlling interests | — | — | — | — | — | — | — | — | — | 952 | 952 | (952) | — |
| Changes in equity for the year | 26,859 | 36,448 | — | (47,196) | 90 | 16,418 | — | (5,139) | (1,093) | (122,894) | (96,507) | (4,480) | (100,987) |
| At 31 December 2017 | 161,152 | 7,153,619 | 8,390 | 9,081 | 15,744 | 152,075 | 3,492 | — | (1,093) | (7,266,725) | 235,735 | (6,073) | 229,662 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Merger reserve | Share-based payments reserve | Statutory reserve | Foreign currency translation reserve | Revaluation reserve | Investment revaluation reserve | FVTOCI reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
| | HK$'000 | HK$'000 | HK'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 31 December 2017 | 161,152 | 7,153,619 | 8,390 | 9,081 | 15,744 | 152,075 | 3,492 | (1,093) | — | (7,266,725) | 235,735 | (6,073) | 229,662 |
| Adjustments on initial application of — HKFRS 9 (Note 3) | — | — | — | — | — | — | — | 1,093 | (1,093) | (25,461) | (25,461) | — | (25,461) |
| Restated balance at 1 January 2018 | 161,152 | 7,153,619 | 8,390 | 9,081 | 15,744 | 152,075 | 3,492 | — | (1,093) | (7,292,186) | 210,274 | (6,073) | 204,201 |
| Total comprehensive income for the year | — | — | — | — | — | (13,007) | — | — | (1,444) | (24,402) | (38,853) | 822 | (38,031) |
| Appropriation to statutory reserve | — | — | — | — | 34 | — | — | — | — | (34) | — | — | — |
| Deemed acquisition of equity interests of a subsidiary from non-controlling interests | — | — | — | — | — | — | — | — | — | 1 | 1 | (1) | — |
| Share-based payments | — | — | — | 4,482 | — | — | — | — | — | — | 4,482 | — | 4,482 |
| Issue of shares on share option scheme (note 28(c)) | 13,338 | 4,482 | — | (4,482) | — | — | — | — | — | — | 13,338 | — | 13,338 |
| Transfer of reserve upon lapse of share options | — | — | — | (9,081) | — | — | — | — | — | 9,081 | — | — | — |
| Changes in equity for the year | 13,338 | 4,482 | — | (9,081) | 34 | (13,007) | — | — | (1,444) | (15,354) | (21,032) | 821 | (20,211) |
| At 31 December 2018 | 174,490 | 7,158,101 | 8,390 | — | 15,778 | 139,068 | 3,492 | — | (2,537) | (7,307,540) | 189,242 | (5,252) | 183,990 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

| | 2018 | 2017 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss before tax | **(24,270)** | (182,113) |
| Adjustments for: | | |
| Amortisation of deferred income | **(296)** | (289) |
| Amortisation of intangible assets | **134** | 131 |
| Amortisation of prepaid land lease payments | **101** | 99 |
| Depreciation | **841** | 2,001 |
| Dividend income | **(653)** | — |
| Equity-settled share-based payments | **4,482** | 304 |
| Fair value gains on investment properties | **(1,243)** | (16,717) |
| Finance costs | **3,009** | 11,164 |
| Loss/(gain) on disposal of property, plant and equipment | **4** | (1,180) |
| Impairment loss for deposit paid for potential acquisition of a subsidiary | **—** | 15,000 |
| Impairment loss for trade and other receivables | **665** | 28,778 |
| (Reversal of impairment loss)/impairment loss for amounts due from an ex-substantial shareholder and its subsidiaries | **(710)** | 72,495 |
| (Reversal of impairment loss)/impairment loss for loan receivables | **(4,876)** | 40,207 |
| Reversal of provision of other tax payables | **—** | (4,859) |
| Interest income | **(3,420)** | (1,422) |
| Loss on early redemption of convertible bonds | **—** | 3,994 |
| Write-off of an associate | **—** | 1,181 |
| Write-off of other prepayments | **26** | — |
| Write-off of property, plant and equipment | **—** | 755 |
| Operating loss before working capital changes | **(26,206)** | (30,471) |
| Decrease/(increase) in inventories | **168** | (480) |
| Decrease in trade and other receivables | **10,282** | 1,351 |
| Decrease/(increase) in financial assets at FVTPL | **2,049** | (2,331) |
| (Decrease)/increase in trade and other payables | **(6,049)** | 4,901 |
| Increase in contract liabilities | **1,817** | — |
| Cash used in operations | **(17,939)** | (27,030) |
| Income taxes paid | **(15)** | (877) |
| Interest received | **2,088** | 644 |
| Net cash used in operating activities | **(15,866)** | (27,263) |

| | 2018 | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Dividend received | **653** | — |
| Decrease/(increase) in pledged bank deposits | **94,696** | (84,938) |
| Interest received | **89** | 355 |
| Loans advanced | **(16,916)** | (24,295) |
| Proceeds from disposal of property, plant and equipment | **11** | 1,180 |
| Purchase of available-for-sale financial assets | **—** | (5,784) |
| Purchases of property, plant and equipment | **(196)** | (197) |
| Repayment from an ex-substantial shareholder and its subsidiaries | **710** | — |
| Settlement of loans advanced | **20,715** | — |
| Net cash generated from/(used in) investing activities | **99,762** | (113,679) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Bank and other borrowings raised | **—** | 131,887 |
| Interest paid | **(3,009)** | (10,019) |
| Proceeds from issue of shares | **13,338** | 63,307 |
| Redemption of convertible bonds | **—** | (30,000) |
| Repayment of bank and other borrowings | **(13,021)** | (106,776) |
| (Repayment of)/proceeds from discounting of bills payables | **(94,696)** | 96,080 |
| Net cash (used in)/generated from financing activities | **(97,388)** | 144,479 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | **(13,492)** | 3,537 |
| Effect of foreign exchange rate changes | **(3,434)** | 1,873 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | **43,270** | 37,860 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | **26,344** | 43,270 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Bank and cash balances | **26,344** | 43,270 |

## 1. GENERAL INFORMATION

China Public Procurement Limited (the "**Company**") was incorporated in Bermuda with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business in Hong Kong is Unit 1802, 18/F, No. 88 Gloucester Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The principal activities of its subsidiaries are provision of public procurement services, trading of different products, development of software, provision of maintenance services and leasing of the Group's investment properties located in Wuhan, Hubei Province, the Peoples' Republic of China (the "**PRC**").

## 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); 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).

The HKICPA has issued certain new and revised HKFRSs 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.

The Company and its subsidiaries (collectively referred to as the "**Group**") incurred a net loss and net operating cash outflows of approximately HK$23,778,000 and HK$15,866,000 respectively during the year ended 31 December 2018, and as at 31 December 2018, the Group had net current liabilities of approximately HK$21,514,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in normal course of business.

In order to improve the Group's financial position, liquidity and cash flows, the directors of the Company have adopted or in the process of adopting the following measures:

(a) The Group has been taking stringent cost controls; and

(b) The Group has obtained the credit facilities of RMB80,000,000 (equivalents to approximately HK$91,440,000) from a bank in the PRC by pledging the Group's non-current assets. As at 31 December 2018, facilities of RMB34,000,000 (equivalents to approximately HK$38,862,000) has been utilised by the Group.

## 2. BASIS OF PREPARATION (Continued)

Taking into account the above measures and after assessing the Group's current and future cash flow positions, the directors of the Company are satisfied that the Group will be able to meet their financial obligations when they fall due. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the carrying amounts of assets to their estimated recoverable amounts, to reclassify non-current assets and liabilities as current assets and liabilities respectively, and to provide for any further liabilities which may arise.

## 3. ADOPTION OF NEW AND REVISED HKFRSs

### (a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs 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) HKFRS 9 Financial Instruments; and

(ii) HKFRS 15 Revenue from Contracts with Customers

***HKFRS 9 Financial instruments***

HKFRS 9 replaces the provisions of HKAS 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 HKFRS 9 in accordance with the transition provisions set out in HKFRS 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 retained profits and other components of equity, without restating comparative information.

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

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 9 Financial instruments*** (Continued)

The adoption of HKFRS 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.

**(b) Measurement**

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

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 asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 9 Financial instruments*** (Continued)

**(b) Measurement** (Continued)

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income and gains, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other income and gains. Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other income and gains and impairment losses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other income and gains in the period in which it arises.

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.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 9 Financial instruments*** (Continued)

**(b) Measurement** (Continued)

Changes in the fair value of financial assets at FVTPL are recognised in other income and gains 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 debt instruments carried at amortised cost and FVTOCI. 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 HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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

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

| | Note | HK$'000 |
|---|---|---|
| Increase in impairment losses for: | | |
| — Trade and other receivables | (i) | 240 |
| — Loan receivables | (ii) | 25,221 |
| Adjustment to accumulated losses from adoption of HKFRS 9 on 1 January 2018 | | 25,461 |
| Attributable to: | | |
| Owners of the Company | | 25,461 |
| Non-controlling interest | | — |
| | | 25,461 |

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 9 Financial instruments*** (Continued)

**(c) Impairment** (Continued)

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

| Financial assets | Note | Classification under HKAS 39 | Classification under HKFRS 9 | Carrying amount under HKAS 39 | Carrying amount under HKFRS 9 |
|---|---|---|---|---|---|
| | | | | HK$'000 | HK$'000 |
| Trade and other receivables | (i) | Loans and receivables | Amortised cost | 21,312 | 21,072 |
| Loans receivables | (ii) | Loans and receivables | Amortised cost | 25,221 | — |
| Equity investments | (iii) | Available-for-sale | FVTOCI | 4,871 | 4,871 |
| Structured deposits | (iv) | FVTPL | FVTPL | 4,564 | 4,564 |

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

| | Note | Effect on investment revaluation reserve | Effect on FVTOCI reserve | Effect on accumulated losses |
|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 |
| Opening balance — HKAS 39 | | (1,093) | — | (7,266,725) |
| Reclassify non-trading equity securities from available-for-sale financial assets to equity instruments at FVTOCI | (iii) | 1,093 | (1,093) | — |
| Opening balance — HKFRS 9 | | — | (1,093) | (7,266,725) |

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

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.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

***HKFRS 9 Financial instruments*** (Continued)

**(c) Impairment** (Continued)

The Group did not designate or de-recognise any financial assets or financial liabilities at FVTPL at 1 January 2018.

Note:

(i) Trade and other receivables that were classified as receivables under HKAS 39 are now classified at amortised cost. An increase of approximately HK$240,000 in the allowance for impairment of the trade receivables was recognised in opening accumulated losses at 1 January 2018 on transition to HKFRS 9.

(ii) Loan receivables that were classified as receivables under HKAS 39 are now classified at amortised cost. An increase of approximately HK$25,221,000 in the allowance for impairment of loan receivables was recognised in opening accumulated losses at 1 January 2018 on transition to HKFRS 9.

(iii) These equity investments represent investments that the Group intends to hold for the long term for strategic purposes. The Group elected to present in OCI 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 approximately HK$4,871,000 were reclassified from available-for-sale financial assets to equity investments at FVTOCI and fair value losses of approximately HK$1,093,000 were reclassified from the investment revaluation reserve to the FVTOCI reserve on 1 January 2018. Unlike HKAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(iv) Structured deposits that were previously classified as FVTPL were continued to be classified as FVTPL since the contractual cash flows do not consist solely of payments of principal and interest on the principal amount outstanding.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

#### *HKFRS 9 Financial instruments* (Continued)

**(c) Impairment** (Continued)

For assets in scope of the HKFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of HKFRS 9 impairment model requirements at 1 January 2018 results in an additional impairment allowance as follows:

| | Note | HK$'000 |
|---|---|---|
| Impairment allowance at 31 December 2017 under HKAS 39 | | 184,729 |
| Additional impairment recognised at 1 January 2018 on: | | |
| — Trade and other receivables | (i) | 240 |
| — Loan receivables | (ii) | 25,221 |
| Impairment allowance at 1 January 2018 under HKFRS 9 | | 210,190 |

Impairment losses related to trade and other receivables are presented separately in the statement of profit or loss for the year ended 31 December 2017.

#### *HKFRS 15 Revenue from contracts with customers*

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

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

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

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

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

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

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

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

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

**(i) Revenue from the public procurement business**

Sales of CA Keys

In prior periods, revenue from sales of CA keys was generally recognised when the goods were transferred to customers.

As there is no identified contract meeting the criteria in HKFRS 15, revenue is recognised when the consideration is received and is non-refundable, and the CA Key has been transferred to the customer and hence the Group has no remaining obligations to perform. Revenue recognition is at a point in time.

As the customers pay in full in advance, revenue will be recognised on delivery of the key consistent with the Group's current practice.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

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

**(i) Revenue from the public procurement business** (Continued)

Tendering services income

In prior periods, revenue from tendering services was recognised when the services are rendered to customers and the result of tendering was announced.

As there is no identified contract meeting the criteria in HKFRS 15, revenue is recognised when the consideration is been received and is non-refundable, and the tendering services (the recommendation) have been completed and accepted by the customer and hence the Group has no remaining obligations to perform. Revenue recognition is at a point in time.

Revenue will therefore be recognised on the later of (i) completion of the services and (ii) receipt of the full consideration.

**(ii) Revenue from the corporate IT solution business**

Sales of online procurement software

In prior periods, revenue from sales of online procurement software was generally recognised when the software was transferred to and accepted by customers.

As none of the criteria in HKFRS 15 to recognise revenue over time are met, the revenue from sale of online procurement software is recognised at a point in time when the software is transferred and accepted by the customers which is consistent with the Group's current practice.

Licensing online procurement platform income

In prior periods, revenue from licensing online procurement platform was recognised over the license period.

For revenue from licensing online procurement platform, the license is not considered distinct from the hosting service and revenue is recognised over time, as the customer would simultaneously receive and consume the benefits of the Group's performance as the Group performs.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

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

**(ii) Revenue from the corporate IT solution business** (Continued)

Provision of maintenance services

In prior periods, revenue from provision of maintenance services was recognised when the services are rendered.

The Group assessed that the performance obligation of provision of maintenance services is satisfied over time (over supporting and warranty services period) as customer would simultaneously receive and consume the benefits of the Group's performance as the Group performs. Therefore, revenue from provision of maintenance services should be recognised over time, which is consistent with the Group's current practice.

**(iii) Trading of goods**

In prior periods, revenue from trading of goods was generally recognised when the goods are transferred to customers.

The Group assessed that the performance obligation is satisfied at a point in time upon delivery of the goods. The control of goods is transferred when customer accepts delivery of the goods. Revenue recognition is at a point in time, which is consistent with the Group's current practice.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

### (a) Application of new and revised HKFRSs (Continued)

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

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. This table shows only those line items impacted by the adoption of HKFRS 15:

| | Note | Amounts reported in accordance with HKFRS 15 | Estimated impact of adoption of HKFRS15 | Hypothetical amounts under HKASs 18 and 11 |
|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 |
| **As at 31 December 2018** | | | | |
| Consolidated statement of financial position (extract) | | | | |
| Trade and other payables | (i) | (25,073) | (1,817) | (26,890) |
| Contract liabilities | (i) | (1,817) | 1,817 | — |

(i) Reclassifications were made as at 1 January 2018 to be consistent with the terminology under HKFRS 15:

Previously, receipt in advances relating to the corporate IT solution business were presented in the statement of consolidated financial statement under "Trade and other payables". To reflect these changes in presentation, the Group has made the reclassification adjustments on the aforesaid receipt in advance to contract liabilities.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

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

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

| | Effective for accounting periods beginning on or after |
|---|---|
| HKFRS 16 Leases | 1 January 2019 |
| HK(IFRIC) 23 Uncertainty over Income Tax Treatments | 1 January 2019 |
| Annual Improvements to HKFRSs 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 HKFRS 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 HKFRS 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.

#### *HKFRS 16 Leases*

HKFRS 16 replaces HKAS 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). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 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.

## 3. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

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

#### *HKFRS 16 Leases* (Continued)

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. Certain of the Group's office premises and staff quarters 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 HKFRS 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 40, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to HK$1,075,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 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 HKFRS 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.

#### *HK(IFRIC) 23 Uncertainty over Income Tax Treatments*

The interpretation of HKAS 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 financial statements in conformity with HKFRS 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.

### (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 consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (a) Consolidation (Continued)

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

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

In the Company's statement of financial position, investments in subsidiaries are 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) Associate

Associate is an entity 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Associate (Continued)

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

### (c) 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 Hong Kong dollars ("**HKD**"), which is the Company's functional and presentation currency.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Foreign currency translation (Continued)

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

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

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

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

#### *(iii) Translation on consolidation*

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

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

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

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

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Property, plant and equipment

Property, plant and equipment 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 | 5% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 20% |
| Leasehold improvements | Over the term of the lease or 25% (whichever is the shorter) |

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

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.

### (e) 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 property is stated at its fair value. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) 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.

### (g) Intangible assets

#### *(i) Computer software and software copyrights acquired*

Computer software and software copyrights are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 10 years.

#### *(ii) Online platform promotion right, online platform development and technical support right and software technology knowhow acquired*

Online platform promotion right, online platform development and technical support right and software technology knowhow with indefinite useful lives are stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that these assets have suffered an impairment loss.

### (h) 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 and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 4 and are reclassified to receivables when the right to the consideration has become unconditional.

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.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

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

***Policy prior to 1 January 2018***

In the comparative period, contract balances were recorded for public procurement services and IT solution services as balances of receipt in advance. These balances have been reclassified as on 1 January 2018 as shown in note 3.

### (j) Recognition and derecognition of financial instruments

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

Financial assets 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Recognition and derecognition of financial instruments (Continued)

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.

### (k) 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.

***Debt investments***

Debt investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

— FVTOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Financial assets (Continued)

***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.

**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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Financial assets (Continued)

***Equity investments*** (Continued)

**Policy prior to 1 January 2018** (Continued)

**(i) Available-for-sale financial assets**

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

### (l) 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.

### (m) 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.

### (n) 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 HKFRSs. 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 below.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) 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.

### (p) 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.

### (q) Equity instruments

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

### (r) 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 trading of goods is recognised when control of the goods has transferred, being when the goods have been delivered to the customer. 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.

***Public procurement business:***

Revenue from sales of CA Keys is recognised at a point in time upon delivery of the key.

Revenue from tendering services is recognised at a point in time on the later of (i) the consideration is received and is non-refundable; and (ii) completion of the services.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Revenue recognition (Continued)

***Corporate IT solution business:***

Revenue from sale of online procurement software is recognised at a point in time when the software is transferred and accepted by the customers.

Revenue from licensing online procurement platform is recognised rateably over the license period.

Revenue from provision of maintenance services is recognised rateably over the period of service.

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.

Dividend income is recognised when the shareholders' rights to receive payment are established.

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

**Policy prior to 1 January 2018**

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

Revenue from trading of 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.

Revenue from public procurement services and corporate IT solution services are recognised as 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Employee benefits

#### *(i) Employee leave 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.

#### *(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.

### (t) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

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

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or, if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) 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.

### (v) 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.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

### (w) Taxation

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) Taxation (Continued)

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, 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 property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are 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)

### (x) 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 other 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 cash-generating unit 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 cash-generating unit.

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

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. 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.

### (y) Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables and contract assets. 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, contract assets and lease 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (y) Impairment of financial assets (Continued)

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.

***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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (y) Impairment of financial assets (Continued)

***Significant increase in credit risk*** (Continued)

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.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (y) Impairment of financial assets (Continued)

***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;

— it is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; or

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

***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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (y) Impairment of financial assets (Continued)

***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 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. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 Leases.

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, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

***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)

### (y) Impairment of financial assets (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.

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

### (z) 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.

### (aa) 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 or those that indicate the going concern assumption is not appropriate 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 JUDGEMENTS AND KEY ESTIMATES

### (a) Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

#### *(i) Going concern basis*

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the availability of financing facilities from a bank at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to the consolidated financial statements.

#### *(ii) Useful lives of intangible assets*

Online platform promotion right, online platform development and technical support right and software technology knowhow acquired by the Group are classified as intangible assets with indefinite useful lives in accordance with HKAS 38 "Intangible Assets" ("**HKAS 38**"). This conclusion is supported by the fact that there are no specific terms for the rights and the directors of the Company expected that the business underlying the rights can be operated perpetually. Under HKAS 38, the Group re-evaluates the useful lives of its software technology knowhow at the end of the reporting period and concluded that the view of indefinite useful lives for these assets is still valid.

#### *(iii) Distinction between investment properties and owner-occupied properties*

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the production of goods. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production of goods. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgement.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

### (a) Critical judgements in applying accounting policies (Continued)

#### *(iv) Deferred tax for investment properties*

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not 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 are recovered through sale.

#### *(v) 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.

#### *(vi) 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. HKFRS 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.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

### (b) Key sources of estimation uncertainty

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

#### *(i) Property, plant and equipment and depreciation*

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 carrying amounts of property, plant and equipment as at 31 December 2018 was approximately HK$2,421,000 (2017: HK$3,442,000).

#### *(ii) 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, income tax credit of approximately HK$492,000 (2017: approximately HK$2,569,000) was credited to profit or loss.

#### *(iii) Impairment of intangible assets*

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating unit to which intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of intangible assets at the end of the reporting period was HK$10,162,000 (2017: HK$10,813,000).

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

### (b) Key sources of estimation uncertainty (Continued)

#### *(iv) Fair value of investment properties*

The Group appointed an independent professional valuer to assess the fair value of the investment properties. In determining the fair value, 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 HK$266,776,000 (2017: HK$279,052,000).

#### *(v) Impairment of trade and other receivables and loan receivables*

Prior to the adoption of HKFRS 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 and other receivables and loan 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 and other receivables and loan receivables was approximately HK$46,533,000 (net of allowance for doubtful debts of HK$184,729,000).

Since the adoption of HKFRS 9 on 1 January 2018, the management of the Group estimates the amount of impairment loss for ECL on trade and other receivables and loan receivables based on the credit risk of trade and other receivables and loan 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 and other receivables and loan receivables is HK$13,628,000 (net of allowance for doubtful debts of HK$206,925,000).

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

### (b) Key sources of estimation uncertainty (Continued)

#### *(vi) Fair value of equity investments at FVTOCI*

In the absence of quoted market prices in an active market, the directors estimate the fair value of the Group's equity investments of which are set out in note 23 to the consolidated financial statements, by considering information of market comparable.

The carrying amount of the investment as at 31 December 2018 was HK$3,191,000 (2017: Available-for-sale financial assets of HK$4,871,000).

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit 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 minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currency of respective Group entities such as HKD and Renminbi ("**RMB**"). 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 Hong Kong dollar had weakened 10 per cent against RMB with all other variables held constant, consolidated loss after tax for the year would have been HK$989,000 (2017: HK$508,000) lower, arising mainly as a result of the foreign exchange loss on net of bank and cash balances and bank borrowing (2017: Bank and other borrowings) denominated in RMB. If the Hong Kong dollar had strengthened 10 per cent against RMB with all other variables held constant, consolidated loss after tax for the year would have been HK$989,000 (2017: HK$508,000) higher, arising mainly as a result of the foreign exchange loss on net of bank and cash balances and bank borrowing (2017: Bank and other borrowings) denominated in RMB.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Price risk

The Group is exposed to equity price risk mainly through its investment in equity security. Investment would be closely monitored by the directors. The Group's equity price risk is concentrated on equity security quoted on the National Equities Exchange and Quotations of the PRC.

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

It is inappropriate to determine the changes of equity price to cause any resultant financial impact on other comprehensive income for the year ended 31 December 2018.

On 19 November 2018, the major shareholder of an investee company entered into a Share Buy-Back Agreement with the Group for buying back all the shares of this investee company held by the Group as disclosed in note 23 at a conditional offer which is subject to the approval of delisting of shares of the aforesaid investee company granted by the National Equities Exchange and Quotation (the "**NEEQ**"). On 14 January 2019, the approval of delisting was granted by the NEEQ and the aforesaid shares held by the Group were disposed.

If equity prices had been 10% higher/lower, other comprehensive income for the year ended 31 December 2017 would increase/decrease by HK$487,000 as a result of the changes in fair value of available-for-sale financial assets.

### (c) 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 deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents and derivative financial assets 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. Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than two months past due are requested to settle certain outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk (Continued)

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. 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 | Loss allowance |
|---|---|---|---|
| | % | HK$'000 | HK$'000 |
| Current (not past due) | 0.5% | 4,641 | 22 |
| Within 3 months past due | 0.8% | 591 | 5 |
| 3 to 6 months past due | 63.0% | 192 | 121 |
| Over 12 months past due | 63.2% | 38 | 24 |
| | | 5,462 | 172 |

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic 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 HK$Nil was determined to be impaired. The ageing analysis of trade receivables that were not considered to be impaired was as follows:

| | 2017 |
|---|---|
| | HK$'000 |
| Neither past due nor impaired | 2,022 |
| Within 3 months past due | 310 |
| 3 to 6 months past due | 57 |
| Over 12 months past due | 6,484 |
| | 8,873 |

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk (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.

The credit risk on bank and cash balances, equity instruments at FVTOCI (2017: available-for-sale financial assets) and financial assets at FVTPL is limited because the counterparties are either well-established banks and financial institution.

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

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 31 December under HKAS 39 | **—** | 9,045 |
| Impact on initial application of HKFRS 9 (note 3) | **124** | — |
| Adjusted balance at 1 January | **124** | 9,045 |
| Impairment losses recognised for the year | **172** | — |
| Reversals | **(124)** | (9,373) |
| Exchange differences | **—** | 328 |
| At 31 December | **172** | — |

The changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during 2018 was caused by origination of new trade receivables net of those settled resulted in an increase in loss allowance of HK$124,000.

***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. Other receivables are considered to be low credit risk when they have a low of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets at amortised cost include other receivables, compensation income receivable, prepayments for goods, other prepayments, deposits and loan receivables.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk (Continued)

***Financial assets at amortised cost*** (Continued)

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

| | Other receivables | Compensation income receivable | Prepayments for goods | Other prepayments | Deposits | Loan receivables | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 31 December 2017 under HKAS 39 | — | 8,473 | 68,884 | 6,835 | — | 100,537 | 184,729 |
| Impact on initial application of HKFRS 9 (note 3) | 76 | — | 32 | 7 | 1 | 25,221 | 25,337 |
| Adjusted balance at 1 January 2018 | 76 | 8,473 | 68,916 | 6,842 | 1 | 125,758 | 210,066 |
| Impairment losses recognised for the year | 635 | — | — | 12 | 2 | 16,916 | 17,565 |
| Reversal for the year | — | — | (32) | — | — | (21,792) | (21,824) |
| Exchange difference | — | — | 1,060 | (89) | — | (25) | 946 |
| At 31 December 2018 | 711 | 8,473 | 69,944 | 6,765 | 3 | 120,857 | 206,753 |

During the year, HK$20,715,000 of loan receivables has been settled.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Liquidity risk

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

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

| | On demand or within 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **As at 31 December 2018** | | | | | |
| Trade and other payables | **24,704** | **—** | **—** | **—** | **24,704** |
| Amounts due to an ex-substantial shareholder and its subsidiaries | **2,682** | **—** | **—** | **—** | **2,682** |
| Bank and other borrowings | **6,601** | **6,356** | **17,555** | **17,641** | **48,153** |
| As at 31 December 2017 | | | | | |
| Trade and other payables | 120,368 | — | — | — | 120,368 |
| Amounts due to an ex-substantial shareholder and its subsidiaries | 2,816 | — | — | — | 2,816 |
| Bank and other borrowings | 18,128 | 6,936 | 19,238 | 24,422 | 68,724 |

### (e) Interest rate risk

The Group's exposure to interest-rate risk mainly arises from its bank deposits, loan receivables and bank borrowing. Loan receivables bear interests at fixed interest rates and therefore are subject to fair value interest value risk. Other bank deposits and bank borrowing bear interests at variable rates varied with the then prevailing market condition.

The effect of changes in interest rates is not significant to these consolidated financial statements. Except as stated above, the Group has no other significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### (f) Categories of financial instruments at 31 December 2018

| | 2018 | 2017 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Financial assets:** | | |
| Equity instruments at FVTOCI | 3,191 | — |
| Available-for-sale financial assets | — | 4,871 |
| Financial assets at FVTPL | 2,515 | 4,564 |
| Financial assets at amortised cost | 37,890 | — |
| Loans and receivables (including cash and cash equivalents) | — | 176,897 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | 66,248 | 177,229 |

### (g) 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.

## 7. FAIR VALUE MEASUREMENTS (Continued)

### (a) Disclosures of level in fair value hierarchy at 31 December 2018:

| Description | Fair value measurements using: Level 1 | Level 2 | Level 3 | Total **2018** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **Recurring fair value measurements:** | | | | |
| **Financial assets** | | | | |
| Equity instruments at FVTOCI | — | — | 3,191 | **3,191** |
| Financial assets at FVTPL — structured deposits | — | 2,515 | — | **2,515** |
| **Investment properties** | | | | |
| Commercial units situated in the PRC | — | — | 266,776 | **266,776** |
| **Total** | — | 2,515 | 269,967 | **272,482** |

| Description | Fair value measurements using: Level 1 | Level 2 | Level 3 | Total 2017 |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Recurring fair value measurements:** | | | | |
| **Financial assets** | | | | |
| Available-for-sale financial assets — listed equity security | 4,871 | — | — | 4,871 |
| Financial assets at FVTPL — structured deposits | — | 4,564 | — | 4,564 |
| **Investment properties** | | | | |
| Commercial units located in the PRC | — | — | 279,052 | 279,052 |
| **Total** | 4,871 | 4,564 | 279,052 | 288,487 |

## 7. FAIR VALUE MEASUREMENTS (Continued)

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

| Description | Investment properties | Equity instruments at FVTOCI |
|---|---|---|
| | HK$'000 | HK$'000 |
| At 1 January 2018 | 279,052 | — |
| Transfer from level 1 | — | 4,871 |
| Total gains recognised in profit or loss | 1,243 | — |
| Total losses recognised in other comprehensive income | — | (1,444) |
| Exchange differences | (13,519) | (236) |
| At 31 December 2018 | 266,776 | 3,191 |
| Total gains recognised in profit or loss for assets held at end of the reporting period | 1,243 | — |
| Total losses recognised in other comprehensive income | — | 1,444 |

| Description | Investment properties |
|---|---|
| | HK$'000 |
| At 1 January 2017 | — |
| Transfer from level 2 | 243,264 |
| Total gains recognised in profit or loss | 16,717 |
| Exchange differences | 19,071 |
| At 31 December 2017 | 279,052 |
| Total gains recognised in profit or loss for assets held at end of the reporting period | 16,717 |

During the year, equity instruments at FVTOCI amounting to HK$3,191,000 (2017: HK$Nil) were transferred from measurement based on level 1 to level 3 as a result of the suspension of trading of the equity instruments at FVTOCI and therefore valuation technique of market comparison approach is used.

The total gains or losses recognised in other comprehensive income are presented in the consolidated statement of profit or loss and other comprehensive income.

## 7. FAIR VALUE MEASUREMENTS (Continued)

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

The total gains recognised in profit or loss including those for assets held at end of the reporting period of approximately HK$1,243,000 are presented in other income and gains in the consolidated statement of profit or loss.

### (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 chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purpose, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussion of valuation processes and results are held between the financial controller and the Board of Directors once a year.

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

***Level 2 fair value measurements***

| Description | Valuation Technique | Inputs | Fair value 2018 | Fair value 2017 |
|---|---|---|---|---|
| | | | **HK$'000** | HK$'000 |
| **Assets** | | | | |
| Structured deposits | Market comparison approach | Price per unit of investment | **2,515** | 4,564 |

## 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: (Continued)

***Level 3 fair value measurements***

| Description | Valuation technique | Unobservable inputs | Range | Effect on fair value for increase of inputs | Fair value 2018 | Fair value 2017 |
|---|---|---|---|---|---|---|
| | | | | | **HK$'000** | HK$'000 |
| Equity instruments at FVTOCI | Market comparison approach | EBITDA | N/A | Decrease | **3,191** | — |
| Commercial units located in the PRC | Income capitalisation | Terminal yield | 6.5% (2017:6.5%) | Decrease | **266,776** | 279,052 |
| | | Reversionary yield | 7% (2017:7%) | Decrease | | |
| | | Monthly rental (RMB/ square metre) | 35–68 (2017:35–66) | Increase | | |

## 8. REVENUE

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

| | 2018 | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Provision of public procurement services | **7,616** | 6,623 |
| Trading of goods | **31,221** | 39,766 |
| Provision of corporate IT solution services | **17,789** | 8,547 |
| Rental income | **11,663** | 9,901 |
| | **68,289** | 64,837 |

## 8. REVENUE (Continued)

Disaggregation of revenue from contracts with customers by services and the timing of revenue recognition for the year are as follow:

| | 2018 | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Revenue from contracts with customers within the scope of HKFRS 15** | | |
| Recognised at point in time | | |
| — Trading of goods | **31,221** | 39,766 |
| — Provision of public procurement services | **7,616** | 6,623 |
| — Sales of online procurement software | **12,384** | 6,266 |
| Recognised over time | | |
| — Licensing online procurement platform income | **2,320** | 604 |
| — Provision of maintenance services | **3,085** | 1,677 |
| | **56,626** | 54,936 |
| **Revenue from other sources** | | |
| — Rental income | **11,663** | 9,901 |
| | **68,289** | 64,837 |

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

## 9. OTHER INCOME AND GAINS

| | 2018 | 2017 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Bank interest income | 89 | 355 |
| Dividend income | 653 | — |
| Fair value gains on investment properties | 1,243 | 16,717 |
| Gains on disposals of financial assets at FYTPL — held for trading | 252 | 14 |
| Gain on disposal of property, plant and equipment | — | 1,180 |
| Government grants — amortisation of deferred income (note 33) | 296 | 289 |
| Government grants (note) | 282 | 479 |
| Interest income from a debtor | 86 | 1,067 |
| Interest income from loan receivables | 1,588 | — |
| Interest income from pledged bank deposits | 1,657 | — |
| Reversal of provision of other tax payables | — | 4,859 |
| Sundry income | 433 | 1,522 |
| | 6,579 | 26,482 |

Note:

The government grants represented financial subsidies for compensating expenses already incurred or giving immediate financial support to the Group. There are no unfulfilled conditions or contingencies in relation to the grants and the grants were determined at the sole discretion of relevant government authorities in the PRC.

## 10. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic and operating decisions.

The Group has four operating segments as follows:

| | | |
|---|---|---|
| Public procurement | — | provision of public procurement services |
| Trading business | — | trading of different products |
| Provision of corporate IT solution | — | development of software and provision of maintenance services to customers |
| Rental income | — | leasing of the Group's investment properties located in Wuhan, Hubei Province, the PRC |

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.

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 directors' emoluments and remaining administrative expenses, fair value gains on investment properties and remaining other income and gains, finance costs, impairment loss for amounts due from an ex-substantial shareholder and its subsidiaries, impairment loss for deposit paid for potential acquisition of a subsidiary, impairment loss/reversal of impairment loss for certain receivables, loss on early redemption of convertible bonds, write-off of other prepayments and write-off of an associate.

Segment assets do not include equity instrument at FVTOCI, available-for-sale financial assets, bank and cash balances, certain intangible assets, certain property, plant and equipment, certain other receivables, financial assets at FVTPL, loan receivables, pledged bank deposits and prepaid land lease payments.

Segment liabilities do not include amounts due to an ex-substantial shareholder and its subsidiaries, bank and other borrowings, certain other payables, current tax liabilities, deferred income and deferred tax 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)

Information about reportable segment profit or loss:

| | Public procurement | Trading business | Provision of corporate IT solution | Rental income | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Year ended 31 December 2018** | | | | | |
| Revenue from external customers | **7,616** | **31,221** | **17,789** | **11,663** | **68,289** |
| Intersegment revenue | **—** | **—** | **—** | **1,291** | **1,291** |
| Segment profit | **6,360** | **119** | **7,938** | **8,390** | **22,807** |
| *Amounts included in the measure of segment profit or loss:* | | | | | |
| Impairment loss/(reversal of impairment loss) for trade and other receivables | **—** | **(93)** | **136** | **(32)** | **11** |
| *Amounts not included in the measure of segment profit or loss but regularly reported to CODM:* | | | | | |
| Depreciation | **32** | **—** | **39** | **—** | **71** |
| **As at 31 December 2018** | | | | | |
| Segment assets | **9,283** | **—** | **4,560** | **267,736** | **281,579** |
| Segment liabilities | **5,629** | **—** | **1,817** | **2,408** | **9,854** |
| *Amounts included in the measure of segment assets:* | | | | | |
| Additions to segment non-current assets | **29** | **—** | **109** | **—** | **138** |

## 10. SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss: (Continued)

| | Public procurement | Trading business | Provision of corporate IT solution | Rental income | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Year ended 31 December 2017 | | | | | |
| Revenue from external customers | 6,623 | 39,766 | 8,547 | 9,901 | 64,837 |
| Intersegment revenue | — | — | — | 1,251 | 1,251 |
| Segment profit/(loss) | 5,272 | (14,233) | 2,910 | 8,903 | 2,852 |
| *Amounts included in the measure of segment profit or loss:* | | | | | |
| Impairment loss/(reversal of impairment loss) for trade and other receivables | — | 14,377 | — | — | 14,377 |
| *Amounts not included in the measure of segment profit or loss but regularly reported to CODM:* | | | | | |
| Depreciation | 57 | — | — | — | 57 |
| As at 31 December 2017 | | | | | |
| Segment assets | 9,884 | 10,197 | 2,057 | 279,419 | 301,557 |
| Segment liabilities | 4,720 | 427 | 4,735 | 1,504 | 11,386 |
| *Amounts included in the measure of segment assets:* | | | | | |
| Additions to segment non-current assets | 70 | — | — | — | 70 |

## 10. SEGMENT INFORMATION (Continued)

Reconciliations of reportable segment revenue and profit or loss:

| | 2018 | 2017 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Revenue** | | |
| Total revenue of reportable segments | **69,580** | 66,088 |
| Elimination of intersegment revenue | **(1,291)** | (1,251) |
| Consolidated revenue | **68,289** | 64,837 |
| **Profit or loss** | | |
| Total profit or loss of reportable segments | **22,807** | 2,852 |
| Administrative expenses | **(55,553)** | (53,005) |
| Finance costs | **(3,009)** | (11,164) |
| Impairment loss for deposit paid for potential acquisition of a subsidiary | **—** | (15,000) |
| Loss on early redemption of convertible bonds | **—** | (3,994) |
| Other income and gains | **6,579** | 26,482 |
| Reversal of impairment loss/(impairment loss) for amounts due from an ex-substantial shareholder and its subsidiaries | **710** | (72,495) |
| Reversal of impairment loss/(impairment loss) for loan receivables | **4,876** | (40,207) |
| Unallocated impairment loss for trade and other receivables | **(654)** | (14,401) |
| Write-off of an associate | **—** | (1,181) |
| Write-off of other prepayments | **(26)** | — |
| Consolidated loss before tax | **(24,270)** | (182,113) |

## 10. SEGMENT INFORMATION (Continued)

Reconciliations of segment assets, liabilities and other material items:

| | 2018 | 2017 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Assets** | | |
| Total assets of reportable segments | **281,579** | 301,557 |
| Unallocated corporate assets | **48,094** | 192,811 |
| Consolidated total assets | **329,673** | 494,368 |
| **Liabilities** | | |
| Total liabilities of reportable segments | **9,854** | 11,386 |
| Unallocated corporate liabilities | **135,829** | 253,320 |
| Consolidated total liabilities | **145,683** | 264,706 |
| **Other material items — impairment loss for/write-off of trade and other receivables** | | |
| Total impairment loss for/write-off of trade and other receivables of reportable segments | **11** | 14,377 |
| Unallocated amounts | **654** | 14,401 |
| Consolidated impairment loss for/write-off of trade and other receivables | **665** | 28,778 |
| **Other material items — depreciation** | | |
| Total depreciation of reportable segments | **71** | 57 |
| Unallocated amounts | **770** | 1,944 |
| Consolidated depreciation | **841** | 2,001 |

Apart from the above, the totals of other material items disclosed in the segment information are the same as the consolidated totals.

## 10. SEGMENT INFORMATION (Continued)

### Geographical information:

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:

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **—** | — | **180** | 200 |
| PRC except Hong Kong | **68,289** | 64,837 | **283,406** | 302,522 |
| Consolidated total | **68,289** | 64,837 | **283,586** | 302,722 |

### Revenue from major customers:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trading business segment | | |
| Customer A | **31,221** | 39,766 |

## 11. FINANCE COSTS

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank borrowing | **2,360** | 1,455 |
| Interest on convertible bonds | **—** | 2,134 |
| Interest for discounting bills (note) | **—** | 5,147 |
| Interest on other borrowings | **649** | 2,428 |
| | **3,009** | 11,164 |

Note:

In prior year, the Group issued bills of RMB80,000,000 (equivalents to approximately HK$96,080,000). The Group later cleared the aforesaid bills before maturity date with a bank in the PRC (the "**PRC Bank**") and bank charges of approximately RMB4,449,000 (equivalents to approximately HK$5,147,000) was paid to the PRC Bank.

## 12. INCOME TAX CREDIT

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax — the PRC | | |
| Provision for the year | **28** | 15 |
| Under/(over)-provision in prior years | **622** | (9,571) |
| | **650** | (9,556) |
| Deferred tax (note 34) | **(1,142)** | 6,987 |
| | **(492)** | (2,569) |

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2017: Nil).

PRC Enterprise Income Tax has been provided at a rate of 25% (2017: 25%).

The reconciliation between the income tax credit and the product of loss before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss before tax | **(24,270)** | (182,113) |
| Tax at the PRC Enterprise Income Tax rate of 25% (2017: 25%) | **(6,068)** | (45,528) |
| Tax effect of income that is not taxable | **(5,451)** | (2,546) |
| Tax effect of expenses that are not deductible | **3,663** | 39,337 |
| Tax effect of utilisation of tax losses not previously recognised | **(66)** | (30) |
| Tax effect of tax losses not recognised | **6,845** | 5,084 |
| Tax effect of temporary differences not recognised | **(49)** | (1,073) |
| Write down of temporary differences previously recognised | **—** | 841 |
| Effect of different tax rates of subsidiaries | **1,633** | 9,533 |
| PRC land appreciation tax | **(1,142)** | 2,700 |
| Tax effect of PRC land appreciation tax | **285** | (675) |
| Tax concession | **(764)** | (641) |
| Under/(over)-provision in prior years | **622** | (9,571) |
| Income tax credit | **(492)** | (2,569) |

## 13. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

| | 2018 | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Amortisation of intangible assets (included in administrative expenses) | **134** | 131 |
| Auditor's remuneration | **1,030** | 700 |
| Cost of inventories sold | **31,191** | 39,622 |
| Depreciation | **841** | 2,001 |
| Direct operating expenses of investment properties that generate rental income | **1,963** | 998 |
| Equity-settled share-based payments | **4,482** | 304 |
| Exchange loss, net | **24** | 55 |
| Loss on disposal of property, plant and equipment | **4** | — |
| Operating lease charges — land and buildings | **3,688** | 3,285 |
| Write-off of property, plant and equipment | **—** | 755 |

## 14. EMPLOYEE BENEFITS EXPENSE (INCLUDING DIRECTORS)

| | 2018 | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, bonuses and allowances | **30,491** | 27,152 |
| Retirement benefits scheme contributions | **2,309** | 1,898 |
| Equity-settled share-based payments | **4,482** | 304 |
| | **37,282** | 29,354 |

## 14. EMPLOYEE BENEFITS EXPENSE (INCLUDING DIRECTORS) (Continued)

### Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2017: one) directors whose emoluments are reflected in the analysis presented in note 15.

The five highest paid individuals in the Group for the year ended 31 December 2018 included a senior executive who decided not to offer herself for re-election as an executive director of the Company in the annual general meeting held on 29 June 2018 and remained as an employee of the Group. Her emolument, including those disclosed in note 15, and the remaining three individuals are set out as follows:

| | **2018** |
|---|---|
| | **HK$'000** |
| Basic salaries and allowances | **1,785** |
| Discretionary bonus | **931** |
| Retirement benefits scheme contributions | **76** |
| | **2,792** |

The five highest paid individuals in the Group for the year ended 31 December 2017 included a senior executive who was appointed as an executive director of the Company on 21 June 2017. Her emolument, including those disclosed in note 15, and the remaining three individuals are set out as follows:

| | 2017 |
|---|---|
| | HK$'000 |
| Basic salaries and allowances | 4,438 |
| Retirement benefits scheme contributions | 142 |
| Equity-settled share-based payments | 196 |
| | 4,776 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| Nil to HK$1,000,000 | **2** | 1 |
| HK$1,000,001 to HK$1,500,000 | **1** | 3 |

## 15. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

The remuneration of every director is set out below:

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonus | (Note v) Estimated money value of other benefits | Employer's contribution to a retirement benefit scheme | Remunerations paid or receivable in respect of accepting office as director | Staff benefit | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Name of director** | | | | | | | | | |
| Mr. Zheng Jinwei (Chairman and Chief executive) | **600** | **–** | **–** | **–** | **65** | **–** | **83** | **–** | **748** |
| Mr. Ho Wai Kong (Honorary chairman) | **600** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **600** |
| Miss Ng Weng Sin (Note (i)) | **149** | **–** | **–** | **–** | **9** | **–** | **–** | **1,263** | **1,421** |
| Ms. He Qian | **174** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **174** |
| Mr. Chen Limin | **300** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **300** |
| Ms. Wong Yan Ki Angel (Note (ii)) | **207** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **207** |
| Mr. Deng Xiang | **305** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **305** |
| Mr. Jiang Jun | **360** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **360** |
| Mr. Zhang Jianguo (Note (iii)) | **108** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **108** |
| Mr. Xu Peng (Note (iii)) | **109** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **109** |
| Mr. Wang Shuai (Note (iv)) | **7** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **7** |
| **Total for 2018** | **2,919** | **–** | **–** | **–** | **74** | **–** | **83** | **1,263** | **4,339** |

## 15. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

### (a) Directors' emoluments (Continued)

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonus | (Note v) Estimated money value of other benefits | Employer's contribution to a retirement benefit scheme | Remunerations paid or receivable in respect of accepting office as director | Housing allowance | | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Name of director | | | | | | | | | |
| Mr. Zheng Jinwei (Chairman and Chief executive) | 600 | — | — | 360 | 132 | — | — | — | 1,092 |
| Mr. Ho Wai Kong (Honorary chairman) | 600 | — | — | 360 | — | — | — | — | 960 |
| Miss Ng Weng Sin (Note (vi)) | 158 | — | — | — | — | — | — | 643 | 801 |
| Ms. He Qian | 120 | — | — | 90 | — | — | — | — | 210 |
| Mr. Cheng Yuanzhong (Note (vii)) | 29 | — | — | (778) | — | — | — | — | (749) |
| Mr. Chen Limin | 300 | — | — | 90 | — | — | — | — | 390 |
| Ms. Liu Lizhen (Note (viii)) | 142 | — | — | (195) | — | — | — | — | (53) |
| Ms. Wong Yan Ki Angel | 360 | — | — | 90 | — | — | — | — | 450 |
| Mr. Deng Xiang | 300 | — | — | 90 | — | — | — | — | 390 |
| Mr. Jiang Jun (Note (ix)) | 194 | — | — | — | — | — | — | — | 194 |
| Mr. Chan Tze See, Kevin (Note (x)) | 52 | — | — | (195) | — | — | — | — | (143) |
| Total for 2017 | 2,855 | — | — | (88) | 132 | — | — | 643 | 3,542 |

Notes:
(i) Resigned on 29 June 2018.

(ii) Resigned on 29 July 2018.

(iii) Appointed on 19 July 2018.

(iv) Appointed on 21 December 2018.

(v) Estimated money values of other benefits include rent of staff quarters paid and equity-settled share-based payments and its reversal.

(vi) Appointed on 21 June 2017.

(vii) Resigned on 27 March 2017.

(viii) Resigned on 21 June 2017.

(ix) Appointed on 2 June 2017.

(x) Resigned on 2 March 2017.

Neither the chief executive nor any of the directors waived any emoluments during the year (2017: Nil).

## 15. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

### (b) Directors' material interests in transactions, arrangements and 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. DIVIDENDS

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

## 17. LOSS PER SHARE

### 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 HK$24,402,000 (2017: HK$176,395,000), and the weighted average number of ordinary shares of 168,972,000 (2017: 137,752,000) for both years, which has been adjusted for the effect of share consolidation on 21 February 2019.

### Diluted loss per share

There was no potential ordinary share outstanding for the year ended 31 December 2018.

There was no dilutive potential ordinary share for the Company's share options for the year ended 31 December 2017.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Furniture, fixtures and equipment | Motor vehicles | Leasehold improvements | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Cost** | | | | | |
| At 1 January 2017 | 2,723 | 22,601 | 5,700 | 3,378 | 34,402 |
| Additions | — | 197 | — | — | 197 |
| Write-off/disposal | (1,016) | (1,159) | (3,198) | (33) | (5,406) |
| Exchange differences | 168 | 1,880 | 166 | 107 | 2,321 |
| At 31 December 2017 and 1 January 2018 | 1,875 | 23,519 | 2,668 | 3,452 | 31,514 |
| Additions | — | 196 | — | — | 196 |
| Write-off/disposal | — | (268) | — | — | (268) |
| Exchange differences | (91) | (1,258) | (113) | (72) | (1,534) |
| At 31 December 2018 | 1,784 | 22,189 | 2,555 | 3,380 | 29,908 |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 January 2017 | 330 | 21,320 | 5,113 | 2,317 | 29,080 |
| Charge for the year | 254 | 1,224 | 258 | 265 | 2,001 |
| Write-off/disposal | (330) | (1,090) | (3,198) | (33) | (4,651) |
| Exchange differences | 34 | 1,402 | 132 | 74 | 1,642 |
| At 31 December 2017 and 1 January 2018 | 288 | 22,856 | 2,305 | 2,623 | 28,072 |
| Charge for the year | 93 | 387 | 90 | 271 | 841 |
| Write-off/disposal | — | (253) | — | — | (253) |
| Exchange differences | (26) | (983) | (97) | (67) | (1,173) |
| At 31 December 2018 | 355 | 22,007 | 2,298 | 2,827 | 27,487 |
| **Carrying amount** | | | | | |
| At 31 December 2018 | 1,429 | 182 | 257 | 553 | 2,421 |
| At 31 December 2017 | 1,587 | 663 | 363 | 829 | 3,442 |

## 18. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 December 2018, the carrying amount of property, plant and equipment pledged as security for the Group's bank borrowing (2017: bank and other borrowings) amounted to approximately HK$1,429,000 (2017: HK$1,587,000).

The Group carried out reviews of the recoverable amounts of its property, plant and equipment and intangible assets attributable to the public procurement segment in 2018, having regard to the change in economic circumstance surrounding that cash-generating unit. The review led to no impairment losses for property plant and equipment and intangible assets. The recoverable amount of approximately HK$12,590,000 (2017: HK$10,005,000) for the relevant assets has been determined on the basis of their value in use using discounted cash flow method. The pre-tax discount rate used was 28.7% (2017: 32.9%).

## 19. PREPAID LAND LEASE PAYMENTS

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

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **4,646** | 4,414 |
| Amortisation of prepaid land lease payments | **(101)** | (99) |
| Exchange differences | **(221)** | 331 |
| At 31 December | **4,324** | 4,646 |
| Current portion | **(97)** | (102) |
| Non-current portion | **4,227** | 4,544 |

At 31 December 2018, the carrying amount of prepaid land lease payments pledged as security for the Group's bank borrowing (2017: bank and other borrowings) amounted to approximately HK$4,324,000 (2017: HK$4,646,000).

## 20. INVESTMENT PROPERTIES

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **279,052** | 243,264 |
| Fair value gains | **1,243** | 16,717 |
| Exchange differences | **(13,519)** | 19,071 |
| At 31 December | **266,776** | 279,052 |

Investment properties were revalued at 31 December 2018 and 2017 by Grant Sherman Appraisal Limited, an independent qualified professional valuer, using direct comparison approach with reference to comparable sale transactions for similar properties in the same location and condition or using income capitalisation approach by reference to net rental income allowing for reversionary income potential.

At 31 December 2018, the carrying amount of investment properties pledged as security for the Group's bank borrowing (2017: bank and other borrowings) amounted to approximately HK$266,776,000 (2017: HK$279,052,000).

## 21. INTANGIBLE ASSETS

| | Computer software | Online platform promotion right | Online platform development and technical support right | Software technology knowhow | Software copyrights | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Cost** | | | | | | |
| At 1 January 2017 | 1,843 | 8,931 | 7,816 | 72,605 | 25,883 | 117,078 |
| Write-off | — | — | — | — | (26,820) | (26,820) |
| Exchange differences | 140 | 677 | 592 | 5,502 | 937 | 7,848 |
| At 31 December 2017 and 1 January 2018 | 1,983 | 9,608 | 8,408 | 78,107 | — | 98,106 |
| Exchange differences | (96) | (464) | (406) | (3,771) | — | (4,737) |
| At 31 December 2018 | 1,887 | 9,144 | 8,002 | 74,336 | — | 93,369 |
| **Accumulated amortisation and impairment** | | | | | | |
| At 1 January 2017 | 311 | 8,931 | 7,816 | 63,959 | 25,883 | 106,900 |
| Amortisation for the year | 131 | — | — | — | — | 131 |
| Write-off | — | — | — | — | (26,820) | (26,820) |
| Exchange differences | 29 | 677 | 592 | 4,847 | 937 | 7,082 |
| At 31 December 2017 and 1 January 2018 | 471 | 9,608 | 8,408 | 68,806 | — | 87,293 |
| Amortisation for the year | 134 | — | — | — | — | 134 |
| Exchange differences | (28) | (464) | (406) | (3,322) | — | (4,220) |
| At 31 December 2018 | 577 | 9,144 | 8,002 | 65,484 | — | 83,207 |
| **Carrying amount** | | | | | | |
| At 31 December 2018 | 1,310 | — | — | 8,852 | — | 10,162 |
| At 31 December 2017 | 1,512 | — | — | 9,301 | — | 10,813 |

## 21. INTANGIBLE ASSETS (Continued)

The average remaining amortisation period of the computer software is 6.95 years (2017: 7.64 years).

At 31 December 2018, the carrying amount of intangible assets that assessed as indefinite useful life amounted to approximately HK$8,852,000 (2017: HK$9,301,000). These assets are attributable to the public procurement segment.

During the year, the Group assessed the recoverable amount of the public procurement segment and as a result recognised impairment loss of approximately HK$Nil (2017: HK$Nil) in respect of intangible assets attributable to that cash-generating unit. Details of the impairment assessment are disclosed in note 18.

## 22. INVESTMENT IN AN ASSOCIATE

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted investment: | | |
| Share of net assets | **—** | — |

For the year ended 31 December 2017, the Group cannot exercise significant influence on financial and operating policy of Guocai South China Metal Exchange Service Limited ("Guocai South China"). Having regard to the fact that Guocai South China has been inactive with no revenue generated since 2015, investment in Guocai South China was fully written off in 2017.

## 23. EQUITY INSTRUMENTS AT FVTOCI (2017: AVAILABLE-FOR-SALE FINANCIAL ASSETS)

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Equity security listed in the PRC, at fair value | **3,191** | 4,871 |
| Analysed as: | | |
| Current assets | **3,191** | — |
| Non-current assets | **—** | 4,871 |

At 31 December 2018, the fair value of listed security is determined by using valuation technique of market comparable approach. At 31 December 2017, the fair value of listed security was based on closing price in the market.

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

At 31 December 2018, equity instruments at FVTOCI (2017: available-for-sale financial assets) of approximately HK$Nil (2017: HK$4,871,000) are pledged as security for the Group's other borrowing.

## 24. TRADE AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **5,462** | 8,873 |
| Allowance for trade receivables | **(172)** | — |
| | **5,290** | 8,873 |
| Other receivables | **3,469** | 2,548 |
| Allowance for other receivables | **(711)** | — |
| | **2,758** | 2,548 |
| Compensation income receivable | **8,473** | 8,473 |
| Allowance for compensation income receivable | **(8,473)** | (8,473) |
| | **—** | — |
| Prepayments for goods | **69,944** | 72,598 |
| Allowance for prepayments for goods | **(69,944)** | (68,884) |
| | **—** | 3,714 |
| Other prepayments | **8,847** | 12,107 |
| Allowance for other prepayments | **(6,765)** | (6,835) |
| | **2,082** | 5,272 |
| Deposits | **1,215** | 905 |
| Allowance for deposits | **(3)** | — |
| | **1,212** | 905 |
| | **11,342** | 21,312 |

## 24. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2018, aggregate allowances of approximately HK$86,068,000 (2017: HK$84,192,000) were made for estimated irrecoverable trade and other receivables. These receivables were individually impaired and were related to debtors that are in unexpected difficult economic situations or having disputes over the outstanding balances. Reconciliation of allowance for trade and other receivables:

| | Trade receivables | Other receivables | Compensation income receivable | Prepayments for goods | Other prepayments | Deposit | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2017 | 9,045 | 43,763 | 5,084 | 40,834 | — | — | 98,726 |
| Allowance for the year | — | 234 | 3,389 | 28,570 | 6,768 | — | 38,961 |
| Amounts written off | — | (43,297) | — | — | — | — | (43,297) |
| Reversals | (9,373) | (810) | — | — | — | — | (10,183) |
| Exchange differences | 328 | 110 | — | (520) | 67 | — | (15) |
| At 31 December 2017 and 1 January 2018 | — | — | 8,473 | 68,884 | 6,835 | — | 84,192 |
| Additional impairment recognised at 1 January 2018 under HKFRS 9 | 124 | 76 | — | 32 | 7 | 1 | 240 |
| Restated balance at 1 January 2018 | 124 | 76 | 8,473 | 68,916 | 6,842 | 1 | 84,432 |
| Allowance/(reversal) for the year | 48 | 635 | — | (32) | 12 | 2 | 665 |
| Exchange differences | — | — | — | 1,060 | (89) | — | 971 |
| At 31 December 2018 | 172 | 711 | 8,473 | 69,944 | 6,765 | 3 | 86,068 |

For trading business, the Group generally grants a credit period of 30 days to customers. Rental income is paid in accordance with the terms of respective agreements. For provision of public procurement services and corporate IT solution services, the Group mainly requires customers to pay certain of the contract sum in advance and settle the remaining balances within 30 days (2017: 30 days) from the date of acceptance. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

## 24. TRADE AND OTHER RECEIVABLES (Continued)

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

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 90 days | **5,152** | 2,332 |
| 91 to 180 days | **87** | 57 |
| 181 to 365 days | **25** | — |
| Over 365 days | **26** | 6,484 |
| | **5,290** | 8,873 |

The carrying amounts of the Group's trade receivables are denominated in RMB.

Included in trade receivables was an amount due from a non-controlling shareholder of a subsidiary of approximately HK$3,513,000 (2017: HK$680,000).

At 31 December 2018, the carrying amount of trade receivables charged as security for the Group's bank borrowing (2017: bank and other borrowings) amounted to approximately HK$989,000 (2017: HK$367,000).

## 25. LOAN RECEIVABLES

Loan receivables represented advances to independent third parties.

At 31 December 2018, included in loan receivables was a loan of HK$100,000,000 (2017: HK$100,000,000) of which impairment of HK$100,000,000 (2017: HK$100,000,000) was made. The loan was unsecured, interest-free, repayable in June 2015 and correlated to a cooperation arrangement with an independent third party. Pursuant to the cooperation arrangement, the independent third party had undertaken to engage the Group for procurement services for a transaction volume of not less than RMB950 million during the year ended 31 December 2014 at an agreed service charge of 1.5%. Further details of such were set out in the Company's announcements dated 5 June 2014.

At 31 December 2018, loan receivables also included loans of approximately HK$5,715,000, HK$6,858,000, HK$5,715,000 and HK$4,343,000 with impairment of approximately HK$20,345,000 in aggregate. These loans were unsecured, interest bearing at a range of 0.5% to 0.6% per month and repayable on 18 May 2019, 26 September 2019, 5 June 2019 and 6 August 2019 respectively.

Subsequent to the date of the reporting period, approximately HK$2,972,000 has been early repaid.

## 26. FINANCIAL ASSETS AT FVTPL

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Held for trading | | |
| Structured deposits, at fair value | **2,515** | 4,564 |

The Group establishes fair value by using valuation techniques for both years. These include the use of market comparable approach, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

## 27. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

As at 31 December 2018, the bank and cash balances and pledged bank deposits of the Group denominated in RMB and kept in the PRC aggregately amounted to approximately HK$25,334,000 (2017: HK$136,844,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

At 31 December 2018, the bank and cash balances of the Group included a restricted deposit charged as security for the Group's bank borrowing amounted to approximately HK$6,043,000 (2017: HK$2,598,000).

At 31 December 2017, the Group's pledged bank deposits of HK$96,080,000 represented deposits pledged to a bank to secure the Group's banking facilities related to the acceptance of discounting bills issued by the Group.

## 28. SHARE CAPITAL

| | Note | Number of shares '000 | Amount HK$'000 |
|---|---|---|---|
| **Ordinary shares, authorised:** | | | |
| At 1 January 2017 (HK$0.01 each) | | 20,000,000 | 200,000 |
| Share consolidation | (a) | (18,000,000) | — |
| At 31 December 2017, 1 January 2018 and 31 December 2018 (HK$0.1 each) | | 2,000,000 | 200,000 |
| **Ordinary shares, issued and fully paid:** | | | |
| At 1 January 2017 (HK$0.01 each) | | 13,429,312 | 134,293 |
| Share consolidation | (a) | (12,086,381) | — |
| Issue of shares by subscription (HK$0.1 each) | (b) | 268,586 | 26,859 |
| At 31 December 2017 and 1 January 2018 (HK$0.1 each) | | 1,611,517 | 161,152 |
| Shares issued under share option scheme | (c) | 133,380 | 13,338 |
| At 31 December 2018 (HK$0.1 each) | | 1,744,897 | 174,490 |

Notes:

(a) On 10 August 2017, a special resolution was passed at a special general meeting to consolidate every 10 shares in the authorised and issued share capital of the Company of HK$0.01 each into one consolidated share of HK$0.1 each. The share consolidation had become effective on 11 August 2017 and the authorised and issued share capital of the Company was consolidated into 2,000,000,000 shares and 1,342,931,000 shares of HK$0.1 each respectively.

(b) On 14 November 2017, 268,586,000 ordinary shares of the Company of HK$0.1 each were issued at HK$0.237 per share. The premium on the issue of shares, amounting to approximately HK$36,448,000, net of direct issue costs of approximately HK$348,000, was credited to the Company's share premium account.

(c) On 1 June 2018, 133,380,000 ordinary shares of the Company of HK$0.1 each were issued upon exercise of share options at an exercise price of HK$0.1 per share.

## 28. SHARE CAPITAL (Continued)

Notes: (Continued)

(d) On 20 February 2019, ordinary and special resolutions were passed at a special general meeting as follows:

(i) To consolidate every 10 shares in the authorised and issued share capital of the Company of HK$0.10 each into one consolidated share of HK$1.00 each. The authorised and issued share capital of the Company was consolidated into 300,000,000 shares (including 200,000,000 ordinary shares and 100,000,000 preference shares) and 174,489,725 ordinary shares of HK$1.00 each respectively.

(ii) To cancel any fractional consolidated ordinary share in the issued share capital of the Company arising from the Share Consolidation shall be cancelled; To reduce the issued share capital of the Company from HK$174,489,725 to HK$17,448,973 divided into 174,489,725 new ordinary shares by cancelling the paid up capital of the Company of HK$0.90 each from HK$1.00 to HK$0.10; and to reduce the authorised share capital of the Company from HK$300,000,000 to HK$30,000,000 divided into 200,000,000 ordinary shares of HK$0.10 each and 100,000,000 preference shares of HK$0.01.

(iii) To approve the authorised share capital of the Company be increased to HK$50,000,000 divided into 500,000,000 shares (including 400,000,000 ordinary shares and 100,000,000 preferences shares) by the creation of an addition 200,000,000 new shares.

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

The Group sets the amount of capital in proportion to risk. 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 payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group's overall strategy remains unchanged from prior year. The Group regards equity attributable to owners of the Company and net debts (included bank and other borrowings and amounts due to an ex-substantial shareholder and its subsidiary, net of cash and cash equivalents) as capital, for management purpose. The amount of capital as at 31 December 2018 amounted to approximately HK$204,442,000 (2017: HK$249,326,000), in which the Group considers as optimal having considered the projected capital expenditures and the projected investment opportunities.

The externally imposed capital requirements for the Group are: (i) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; and (ii) to meet financial covenants attached to the bank borrowing.

Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained sufficient public float as required by the Listing Rules. As at 31 December 2018, over 25% (2017: over 25%) of the shares were in public hands.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowing. There have been no breaches in the financial covenants of bank borrowing for the year ended 31 December 2018.

## 29. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Statement of financial position of the Company

| | | As at 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| | Note | **HK$'000** | HK$'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | | **2** | 25,196 |
| **Total non-current assets** | | **2** | 25,196 |
| **Current assets** | | | |
| Trade and other receivables | | **1,458** | 1,708 |
| Amounts due from subsidiaries | | **17,769** | 211,387 |
| Bank and cash balances | | **82** | 319 |
| **Total current assets** | | **19,309** | 213,414 |
| **TOTAL ASSETS** | | **19,311** | 238,610 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 28 | **174,490** | 161,152 |
| Reserves | 29(b) | **(166,895)** | 70,117 |
| **Total equity** | | **7,595** | 231,269 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | | **8,657** | 437 |
| Other payables and accruals | | **3,059** | 6,904 |
| **Total current liabilities** | | **11,716** | 7,341 |
| **TOTAL EQUITY AND LIABILITIES** | | **19,311** | 238,610 |

Approved by the Board of Directors on 29 March 2019 and is signed on its behalf by:

**Zheng Jinwei** **He Qian**

## 29. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

### (b) Reserve movement of the Company

| | Share premium | Share-based payments reserve | Convertible bonds reserve | Contributed surplus | Accumulated losses | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2017 | 7,117,171 | 56,277 | 5,139 | 332,310 | (7,395,273) | 115,624 |
| Loss for the year | — | — | — | — | (82,259) | (82,259) |
| Issue of shares by subscription (note 28(b)) | 36,448 | — | — | — | — | 36,448 |
| Redemption of convertible bonds | — | — | (5,139) | — | 5,139 | — |
| Share-based payments | — | 304 | — | — | — | 304 |
| Transfer of reserve upon lapse of share options | — | (47,500) | — | — | 47,500 | — |
| At 31 December 2017 | 7,153,619 | 9,081 | — | 332,310 | (7,424,893) | 70,117 |
| Adjustments on initial application of — HKFRS 9 | — | — | — | — | (203,603) | (203,603) |
| Restated balance at 1 January 2018 | 7,153,619 | 9,081 | — | 332,310 | (7,628,496) | (133,486) |
| Loss for the year | — | — | — | — | (37,891) | (37,891) |
| Share-based payments | — | 4,482 | — | — | — | 4,482 |
| Issue of shares on share option scheme | 4,482 | (4,482) | — | — | — | — |
| Transfer of reserve upon lapse of share options | — | (9,081) | — | — | 9,081 | — |
| At 31 December 2018 | 7,158,101 | — | — | 332,310 | (7,657,306) | (166,895) |

## 30. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the 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*

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be utilised in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

#### *(ii) Merger reserve*

The merger reserve of the Group represents the difference between the aggregate of the nominal value of the ordinary shares of the subsidiaries acquired and the nominal value of the ordinary shares of the Company issued in exchange therefor pursuant to the Group reorganisation.

#### *(iii) Share-based payments reserve*

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

#### *(iv) Statutory reserve*

In accordance with the PRC Company Law and the articles of association of PRC subsidiaries, subsidiaries registered in the PRC are required to appropriate 10% of its annual statutory net profit as determined in accordance with relevant statutory rules and regulations applicable to enterprises established in the PRC (after offsetting any prior years' losses) to the statutory reserve. When the balance of such reserve fund reaches 50% of the entities' capital, any further appropriation is optional. The statutory reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory reserve must be maintained at a minimum of 25% of the capital after such usages.

## 30. RESERVES (Continued)

### (b) Nature and purpose of reserves (Continued)

#### *(v) 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 policy set out in note 4(c)(iii) to the consolidated financial statements.

#### *(vi) Revaluation reserve*

The revaluation reserve has been set up and is dealt with the fair value changes arising from the reclassification of Group's property, plant and equipment and prepaid land lease payments to investment properties.

#### *(vii) Financial assets at FVTOCI (2017: Investment revaluation) reserve*

The financial assets at FVTOCI (2017: investment revaluation) reserve comprises the cumulative net change in the fair value of financial assets at FVTOCI (2017: investment revaluation) held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 4(k) to the consolidated financial statements.

#### *(ix) Contributed surplus*

The contributed surplus of the Company represents the difference between the fair value of the aggregate net assets of the subsidiaries acquired and the nominal value of the ordinary shares of the Company issued in exchange therefor pursuant to the Group reorganisation.

Under the Bermuda Companies Act 1981, contributed surplus of the Company is available for distribution, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31 December 2018 and 2017, no reserve of the Company was available for distribution as the aggregate of the contributed surplus and the accumulated losses are in debit balance.

## 31. EQUITY-SETTLED SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of attracting and retaining quality personnel and providing them with incentive to contribute to the business and operation of the Group. The Scheme was adopted on 13 June 2013 and will remain in force for a period of ten years from the date of adoption.

The directors may at their discretion grant share options to full-time or part-time employees, directors, suppliers, customers, service providers for research, development and other technological support, advisors or consultants of the Group or its equity investments, shareholders or holders of any securities issued by the Group or its equity investments, or others who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

The total number of shares which may be allotted and issued upon exercise of all share options (excluding, for this purposes, share options which have lapsed in accordance with the terms of the Scheme) to be granted under the Scheme shall not exceed 10% of the issued share capital of the Company (the "Limit"). The Company may seek approval by shareholders in general meeting to refresh the Limit or to grant share options beyond the Limit provided that the share options in excess of the Limit are granted only to participants specifically identified by the Company before such approval is sought, subject to the limitation that the maximum number of shares which may be allotted and issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme shall not exceed 30% of the issued share capital of the Company from time to time.

The total number of shares issued and which may fall to be issued upon exercise of the share options (including both exercised or outstanding options) under the Scheme to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of share options to a grantee under the Scheme would result in the shares issued and to be issued upon exercise of all share options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Scheme in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the issued share capital of the Company, such further grant must be separately approved by shareholders of the Company in general meeting with such grantee and his associates abstaining from voting.

The offer for the grant of share options to any director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive directors (excluding any independent non-executive director who or whose associate is the proposed grantee of the share options).

## 31. EQUITY-SETTLED SHARE OPTION SCHEME (Continued)

Where share options are proposed to be granted to a substantial shareholder or an independent non-executive director or any of their respective associates, and the proposed grant of share options would result in the shares issued and to be issued upon exercise of all share options already granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the grant of such options: (i) representing in aggregate over 0.1% of the issued share capital of the Company and (ii) having an aggregate value (based on the closing price of a share of the Company at each date of the grant of these share options) exceed HK$5 million, the proposed grant shall be subject to the approval of shareholders of the Company in general meeting. Similar approval is required for any changes in terms of share options granted to substantial shareholders or independent non-executive directors or any of their respective associates.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings. Each share option gives the holder the right to subscribe for one ordinary share in the Company.

The options which remained unexercised after a period of three years from the date of grant were expired. Generally, options granted to directors and employees are forfeited in 6 months if the directors and employee leave the Group while options granted to consultants are forfeited immediately if the consultants leave the Group.

## 31. EQUITY-SETTLED SHARE OPTION SCHEME (Continued)

During the year 2018, 133,380,000 share options were granted to 9 consultants of the Company. Details of share options granted during the year are as follows:

| Date of grant | Exercise period | Exercise price |
|---|---|---|
| | | HK$ |
| 25 May 2018 | 25 May 2018 to 24 May 2021 | 0.10 |

According to Binomial Option Pricing Model, the details of the options granted during the year under the option scheme were as follows:

| Date of grant | Number of shares issuable under options granted | Option value | Closing share price at date of grant | Risk fee rate | Volatility | Expiration of the options | Dividend yield |
|---|---|---|---|---|---|---|---|
| 25 May 2018 | 133,380,000 | 4,482,000 | 0.099 | 2.52% | 58.02% | 24 May 2021 | 0% |

(i) Historical volatilities, instead of implied volatilities, are used because the options would not have an active secondary market, and the historical daily volatilities of the Company have been applied.

(ii) The historical dividend yield of the Company's stock is used to estimate the future dividend yield of the stock during the option validity period.

(iii) Risk-free rate was based on the yield of HKD Hong Kong Sovereign Curve.

The values of the options are uncertain and subject to a number of assumptions and the limitation of the model.

Share options were exercised on 1 June 2018, the closing price of exercise price was HK0.1.

## 31. EQUITY-SETTLED SHARE OPTION SCHEME (Continued)

The following share options expired/forfeited during the year:

| Categories | Date of grant | Number of outstanding share options as at 31 December 2017 | Vesting period | Exercise period | Exercise price |
|---|---|---|---|---|---|
| | | | | | HK$ |
| Directors | 22 December 2015 | 6,000,000 | 50% of the share options vest on 22 December 2015 and 50% of the share options vest on 22 June 2017 | 22 December 2015 to 21 December 2018 | 2.28 |
| Employees | 22 December 2015 | 2,298,000 | 50% of the share options vest on 22 December 2015 and 50% of the share options vest on 22 June 2017 | 22 December 2015 to 21 December 2018 | 2.28 |

Details of the movement of share options during the year are as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Number of share options** | **Weighted average exercise price** | Number of share options | Weighted average exercise price |
| | **'000** | **HK$** | '000 | HK$ |
| Outstanding at 1 January | **8,298** | **2.280** | 534,500 | 0.270 |
| Granted during the year | **133,380** | **0.100** | — | — |
| Forfeited during the year | **(1,224)** | **2.280** | (351,520) | 0.239 |
| Exercised during the year | **(133,380)** | **0.100** | — | — |
| Expired during the year | **(7,074)** | **2.280** | (100,000) | 0.415 |
| Share consolidation | **—** | **—** | (74,682) | — |
| Outstanding at 31 December | **—** | **—** | 8,298 | 2.280 |
| Exercisable at 31 December | **—** | **—** | 8,298 | 2.280 |

## 31. EQUITY-SETTLED SHARE OPTION SCHEME (Continued)

The share options outstanding expired at the end of 2017 have a weighted average remaining contractual life of 0.97 years and the exercise price is HK$2.28.

Share options granted to consultants were incentives for helping the Group to expand its business network, acquire and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, the fair value is measured by reference to the fair value of share options granted.

The Group recorded total expenses of approximately HK$4,482,000 (2017: HK$304,000) during the year in respect of the Scheme.

## 32. BANK AND OTHER BORROWINGS

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank borrowing | **38,862** | 45,638 |
| Other borrowings | **—** | 8,407 |
| | **38,862** | 54,045 |

The borrowings are repayable as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **4,572** | 13,211 |
| More than one year, but not exceeding two years | **4,572** | 4,804 |
| More than two years, but not exceeding five years | **13,716** | 14,412 |
| More than five years | **16,002** | 21,618 |
| | **38,862** | 54,045 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(4,572)** | (13,211) |
| Amount due for settlement after 12 months | **34,290** | 40,834 |

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

## 32. BANK AND OTHER BORROWINGS (Continued)

The effective interest rates of borrowings were as follows:

| | **2018** | 2017 |
|---|---|---|
| Bank borrowing | **5.39%** | 5.39% |
| Other borrowings | **N/A** | 30% |

Bank borrowing is arranged at floating interest rate and exposes the Group to cash flow interest rate risk. Other borrowings were arranged at fixed rates, thus exposing the Group to fair value interest rate risk.

Bank borrowing at 31 December 2017 and 2018 was secured by a charge over the Group's property, plant and equipment (note 18), prepaid land lease payments (note 19), part of investment properties (note 20), trade receivables (note 24) and bank and cash balances (note 27).

Other borrowings at 31 December 2017 were secured by a charge over the Group's part of investment properties (note 20) and available-for-sale financial assets (note 23).

## 33. DEFERRED INCOME

Deferred income represented government subsidies received for the capital investments of the Group. There is no unfulfilled condition relating to those granted and such grants are deferred and released to profit or loss in accordance with the useful lives of the related assets.

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **5,090** | 5,010 |
| Credit to profit or loss for the year (note 9) | **(296)** | (289) |
| Exchange differences | **(236)** | 369 |
| At 31 December | **4,558** | 5,090 |

## 34. DEFERRED TAX LIABILITIES

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

| | Unrealised profits | Revaluation of investment properties | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2017 | 811 | (33,466) | (32,655) |
| Charge to profit or loss for the year (note 12) | (841) | (6,146) | (6,987) |
| Exchange differences | 30 | (2,771) | (2,741) |
| At 31 December 2017 and 1 January 2018 | — | (42,383) | (42,383) |
| Credit to profit or loss for the year (note 12) | — | 1,142 | 1,142 |
| Exchange differences | — | 2,007 | 2,007 |
| At 31 December 2018 | — | (39,234) | (39,234) |

At the end of the reporting period, the Group has unused tax losses of approximately HK$161,686,000 (2017: HK$159,461,000) and deductible temporary differences of approximately HK$99,000 (2017: HK$383,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses of approximately of HK$4,622,000, HK$21,192,000, HK$23,030,000, HK$23,607,000 and HK$26,324,000 will expire on 31 December 2019, 2020, 2021, 2022 and 2023 respectively. Other tax losses may be carried forward indefinitely. The unused tax losses of the Group have not yet been agreed by respective tax authorities.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately HK$2,476,000 (2017: HK$2,476,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 35. TRADE AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables | **163** | 171 |
| Bills payables | **—** | 96,080 |
| Accruals | **7,086** | 9,760 |
| Security deposits | **3,546** | 2,077 |
| Receipt in advance | **369** | 5,450 |
| Other payables (note a) | **11,966** | 10,184 |
| Payables for acquisition of intangible assets | **1,943** | 2,096 |
| | **25,073** | 125,818 |

Note a: Included unsecured interest-free advances of HK$1,086,000 (2017: HK$1,141,000) from an independent third party and unsecured interest-free payables of approximately HK$2,035,000 (2017: HK$Nil) to a staff of a subsidiary of the Company.

The ageing analysis of trade payables, based on the invoice date, is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Over 365 days | **163** | 171 |

The carrying amounts of the Group's trade payables are denominated in RMB.

## 36. CONTRACT LIABILITIES (2017: RECEIPT IN ADVANCE)

| **Contract liabilities** | 31 December 2018 | 1 January 2018 | 31 December 2017 |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Billings in advance of performance obligation | | | |
| — Provision of corporate IT solution services | 1,817 | 4,991 | — |

Contract liabilities relating to service contracts are balances due to customers under service contracts. These arise if a particular milestone payment exceeds the revenue recognised to date under the cost-to-cost method.

There were no significant changes in the contract liabilities balances during the reporting period.

Movements in contract liabilities:

| | **2018** |
|---|---|
| | **HK$'000** |
| Balance at 1 January | **4,991** |
| Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period | **(3,174)** |
| Balance at 31 December | **1,817** |

## 37. AMOUNTS DUE TO AN EX-SUBSTANTIAL SHAREHOLDER AND ITS SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

## 38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Reconciliation of liabilities arising from financing activities

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

| | 1 January 2017 | Cash inflows/ (outflows) | Interest expense | Loss on early redemption | Exchange differences | 31 December 2017 |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Convertible bond — liabilities component | 24,861 | (30,989) | 2,134 | 3,994 | — | — |
| Bank and other borrowings (note 32) | 26,423 | 21,228 | 3,883 | — | 2,511 | 54,045 |
| Bills payables (including in trade and other payables) (note 35) | — | 90,933 | 5,147 | — | — | 96,080 |
| | 51,284 | 81,172 | 11,164 | 3,994 | 2,511 | 150,125 |

| | **1 January 2018** | **Cash outflows** | **Interest expense** | **Exchange differences** | **31 December 2018** |
|---|---|---|---|---|---|
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Bank and other borrowings (note 32) | **54,045** | **(13,021)** | **(3,009)** | **847** | **38,862** |
| Bills payables (including in trade and other payables) (note 35) | **96,080** | **(94,696)** | **–** | **(1,384)** | **–** |
| | **150,125** | **(107,717)** | **(3,009)** | **(537)** | **38,862** |

## 39. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Acquisition of intangible assets | **7,770** | 8,164 |
| Further capital injection to an associate (note) | **19,659** | 20,657 |
| | **27,429** | 28,821 |

Note:

The due date of the capital injection to an associate is 30 June 2020.

## 40. LEASE COMMITMENTS

### The Group as lessee

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **1,075** | 1,892 |
| In the second to fifth years inclusive | **—** | 549 |
| | **1,075** | 2,441 |

Operating lease payments represent rentals payable by the Group for certain of its offices premises and staff quarters. Leases are negotiated for terms ranging from ten months to three years and rentals are fixed over the lease terms and do not include contingent rentals.

## 40. LEASE COMMITMENTS (Continued)

### The Group as lessor

Property rental income earned during the year was approximately HK$11,663,000 (2017: HK$9,901,000). All of the Group's investment properties are held for rental purposes. They are expected to generate rental yields of 3.90% (2017: 3.62%) on an ongoing basis. Generally, leases are negotiated for terms ranging from one to five years.

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **8,408** | 7,618 |
| In the second to fifth years inclusive | **7,245** | 5,915 |
| | **15,653** | 13,533 |

## 41. RELATED PARTY TRANSACTIONS

The key management personnel represented solely the directors of the Company and the compensation paid to them is disclosed in note 15.

At 31 December 2018, the Group had a prepaid education benefit of approximately HK$2,036,000 (2017: HK$Nil) for a director.

## 42. EVENT AFTER THE REPORTING PERIOD

On 20 February 2019, ordinary and special resolutions were passed at a special general meeting to have share consolidation, capital reduction and an increase of authorised share capital of the Company. Details refer to note 28(d).

## 43. PRINCIPAL SUBSIDIARIES

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

| Name | Place of incorporation/ registration and operation | Particulars of issued share capital/registered capital | Percentage of ownership interest/voting power/profit sharing | Principal activities |
|---|---|---|---|---|
| **Directly held:** | | | | |
| Guocai Financial Information Consultancy Limited*,# 國採金融信息諮詢有限公司 | The PRC | Registered/contributed capital RMB100,000,000/ RMB19,999,000 | 100% | Inactive |
| **Indirectly held:** | | | | |
| Gongcai Network Technology Limited*,# 公採網絡科技有限公司 | The PRC | Registered and contributed capital US$50,000,000 | 100% | Provision of rental income, trading of goods and investment holding |
| Guocai Jinggang Investment Limited*,# 國採京港投資有限公司 | The PRC | Registered and contributed capital RMB50,000,000 | 90% | Inactive |
| Guocai (Beijing) Technology Limited*,# ("**Guocai (Beijing)**") 國採(北京)技術有限公司 | The PRC | Registered and contributed capital RMB60,000,000 | 90% | Provision of public procurement and corporate IT solution services and investment holding |
| Guocai (Hubei) Technology Limited*,# 國採(湖北)技術有限公司 | The PRC | Registered and contributed capital RMB10,000,000 | 100% | Provision of public procurement and corporate IT solution services |
| Guocai (Qinghai) Tendering Limited*,^ 國採(青海)招標有限公司 | The PRC | Registered and contributed capital RMB2,000,000 | 63% | Provision of public procurement services |
| Guocai (Shenzhen) Information Technology Limited*,# 國採(深圳)信息技術有限公司 | The PRC | Registered and contributed capital RMB4,000,000 | 60% | Provision of corporate IT solution services |
| Jining Gongcai Wangluo Technology Limited*,^ 濟寧公採網絡科技有限公司 | The PRC | Registered and contributed capital RMB3,000,000 | 100% | Provision of public procurement services |

## 43. PRINCIPAL SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2018 are as follows: (Continued)

| Name | Place of incorporation/ registration and operation | Particulars of issued share capital/registered capital | Percentage of ownership interest/voting power/profit sharing | Principal activities |
|---|---|---|---|---|
| **Indirectly held: (Continued)** | | | | |
| Public Procurement Limited | Hong Kong | Ordinary share capital HK$34,000,000 | 100% | Investment holding |
| Qinghai Gongcai Shutong Information Technology Limited*,^ 青海公採數通信息技術有限公司 | The PRC | Registered and contributed capital RMB10,000,000 | 63% | Provision of public procurement services and investment holding |
| Weihai Guocai Information Technology Limited*,^ 威海國採信息技術有限公司 | The PRC | Registered and contributed capital RMB5,000,000 | 100% | Provision of corporate IT solution services |

* For identification purposes only.

\# Foreign investment enterprise.

^ Domestic Invested enterprise.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. None of the subsidiaries has issued any debt securities.

## 43. PRINCIPAL SUBSIDIARIES (Continued)

The following table shows information of a subsidiary that have non-controlling interests ("**NCI**") material to the Group. The summarised financial information represents amounts before inter-company elimination.

| | Guocai (Beijing) | |
|---|---|---|
| Name | **2018** | 2017 |
| Principal place of business/country of registration | PRC/PRC | |
| % of ownership interests/voting rights held by NCI | **10%** | 10% |
| | **HK$'000** | HK$'000 |
| **At 31 December:** | | |
| Non-current assets | **28,366** | 29,600 |
| Current assets | **1,876** | 8,907 |
| Current liabilities | **(109,376)** | (113,519) |
| Net liabilities | **(79,134)** | (75,012) |
| Accumulated NCI | **(7,913)** | (7,501) |
| **Year ended 31 December** | | |
| Revenue | **2,128** | 1,438 |
| Loss | **(9,169)** | (12,802) |
| Other comprehensive income | **4,344** | (6,556) |
| Total comprehensive income | **(4,825)** | (19,358) |
| Loss allocated to NCI | **(482)** | (1,936) |
| Net cash used in operating activities | **(10,348)** | (6,930) |
| Net cash (used in)/generated from investing activities | **(14)** | 8,759 |
| Effect of foreign exchange rate changes | **4,955** | 1,898 |
| Net (decrease)/increase in cash and cash equivalents | **(5,407)** | 3,727 |

# Five-Year Financial Summary

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 (Restated) | HK$'000 (Restated) | HK$'000 |
| **Results** | | | | | |
| Revenue | **68,289** | 64,837 | 51,216 | 2,516,060 | 1,223,077 |
| Loss before tax | **(24,270)** | (182,113) | (201,675) | (1,072,361) | (663,018) |
| Income tax credit/(expense) | **492** | 2,569 | (9,126) | 2,349 | (5,164) |
| Loss for the year | **(23,778)** | (179,544) | (210,801) | (1,070,012) | (668,182) |
| Attributable to: | | | | | |
| Owners of the Company | **(24,402)** | (176,395) | (208,224) | (1,062,453) | (665,164) |
| Non-controlling interests | **624** | (3,149) | (2,577) | (7,559) | (3,018) |
| | **(23,778)** | (179,544) | (210,801) | (1,070,012) | (668,182) |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 (Restated) | HK$'000 (Restated) | HK$'000 |
| **Assets and liabilities** | | | | | |
| Total assets | **329,673** | 494,368 | 493,451 | 697,098 | 1,743,462 |
| Total liabilities | **(145,683)** | (264,706) | (162,802) | (162,664) | (293,366) |
| Total equity | **183,990** | 229,662 | 330,649 | 534,434 | 1,450,096 |
| Attributable to: | | | | | |
| Owners of the Company | **189,242** | 235,735 | 332,242 | 533,608 | 1,439,855 |
| Non-controlling interests | **(5,252)** | (6,073) | (1,593) | 826 | 10,241 |
| | **183,990** | 229,662 | 330,649 | 534,434 | 1,450,096 |