



CHINA TOUYUN TECH GROUP LIMITED
中國透雲科技集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1332

The cover features a large blue rectangular area with a white cloud shape in the center containing the text '2019 INTERIM REPORT'. The background is a light blue sky with a sunburst effect and a network of circular icons connected by lines. The icons include a lightbulb, a smartphone, a Wi-Fi symbol, a gear, a play button, a laptop, a mouse cursor, and a cloud. At the bottom, there are stylized illustrations of three people: a man on the left holding a laptop, a man in the center sitting on a ledge with a laptop, and a woman on the right sitting on a ledge with a smartphone. Large gears are visible in the background behind the people.

2019 INTERIM REPORT



CONTENTS

Corporate Information 2

Management Discussion and Analysis 3

Disclosure of Interests 6

Other Information 8

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income 14

Condensed Consolidated Statement of Financial Position 16

Condensed Consolidated Statement of Changes in Equity 18

Condensed Consolidated Statement of Cash Flows 19

Notes to Condensed Consolidated Financial Statements 20





CORPORATE INFORMATION

DIRECTORS

Executive directors

Mr. Wang Liang (*Chairman*)

Mr. Du Dong

Mr. Lo Yuen Wa Peter

Non-executive director

Mr. Chen Hui

Independent non-executive directors

Mr. Cheung Wing Ping

Mr. Ha Kee Choy Eugene

Mr. To Shing Chuen

AUDIT COMMITTEE

Mr. Ha Kee Choy Eugene (*Chairman*)

Mr. Cheung Wing Ping

Mr. To Shing Chuen

NOMINATION COMMITTEE

Mr. Wang Liang (*Chairman*)

Mr. Du Dong

Mr. Chen Hui

Mr. Cheung Wing Ping

Mr. Ha Kee Choy Eugene

Mr. To Shing Chuen

REMUNERATION COMMITTEE

Mr. To Shing Chuen (*Chairman*)

Mr. Wang Liang

Mr. Du Dong

Mr. Cheung Wing Ping

Mr. Ha Kee Choy Eugene

AUTHORISED REPRESENTATIVES

Mr. Du Dong

Mr. Lo Yuen Wa Peter

COMPANY SECRETARY

Ms. Cheng Pui Yee

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

12/F, Kwan Chart Tower

6 Tonnochy Road

Wanchai, Hong Kong

INDEPENDENT AUDITORS

Moore Stephens CPA Limited

Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai

Banking Corporation Limited

SHARE REGISTRARS AND TRANSFER OFFICES

Principal share registrar and
transfer office

MUFG Fund Services (Bermuda) Limited

4th Floor

North Cedar House

41 Cedar Avenue

Hamilton HM 12

Bermuda

Hong Kong branch share registrar and transfer office

Tricor Secretaries Limited

Level 54

Hopewell Centre

183 Queen's Road East

Hong Kong

WEBSITE

www.chinatouyun.com.hk

STOCK CODE

1332

On behalf of the Board of Directors (the “Directors” or the “Board”) of China Touyun Tech Group Limited (the “Company”), I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019.

BUSINESS REVIEW

The Group recorded a loss attributable to the shareholders of the Company of HK\$71.0 million for the six months ended 30 June 2019, representing a decrease of 14.25% as compared to the loss attributable to the shareholders of the Company of HK\$82.8 million for the six months ended 30 June 2018. The improved performance was mainly due to (i) the decrease in administrative expenses and selling and distribution cost by cost control implementation; (ii) the decrease in finance cost due to early redemption of the convertible bond; (iii) the increase in share of result of an associate; and (iv) partly setting off by the increase in impairment loss of goodwill and fair value loss on financial assets at fair value through profit or loss (not held for trading).

During the six months ended 30 June 2019, the Group recorded a revenue of approximately HK\$161.7 million (six months ended 30 June 2018: HK\$162.2 million), representing a decrease of approximately 0.3% as compared to the corresponding period of last year. The Group’s overall gross profit margin was 31.1% (six months ended 30 June 2018: 29.3%). Such slight increase in gross profit margin is primarily attributable to the decrease in operating cost.

FINANCIAL REVIEW AND PROSPECT

QR code business

Revenue from QR code business was HK\$29.1 million and its segment loss was HK\$81.5 million during the six months ended 30 June 2019 (six months ended 30 June 2018: Revenue of HK\$37.2 million and segment loss of HK\$52.6 million). The increase in segment loss was mainly due to the impairment loss of goodwill recognised during the period.

Packaging products business

The packaging products business reported a revenue of HK\$131.6 million for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$124.8 million), representing an increase of 5.4% as compared with the corresponding period of last year. A segment profit of HK\$7.1 million was recorded during the six months ended 30 June 2019 (six months ended 30 June 2018: segment loss of HK\$0.7 million). The segment profit was mainly due to increase in sales and decrease in operating costs.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Treasury investment business

During the period, the Group recorded fair value gain of HK\$20.0 million on financial assets at fair value through profit and loss held for trading (six months ended 30 June 2018: a fair value loss of HK\$2.9 million). Dividend income increased to HK\$1.1 million as compared to HK\$0.2 million in the corresponding period of last year, which was mainly due to the additional investments in the listed equity investments during the period. In addition, the Group recognized fair value loss (net) on financial assets at fair value through profit or loss (not held for trading) of HK\$35.9 million (six months ended 30 June 2018: fair value gain of HK\$4.7 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had outstanding HK\$222.6 million secured convertible bond, bears interest of 7% per annum and repayable in 2019 (31 December 2018: HK\$219.5 million). The Group had no other borrowings (31 December 2018: Nil) and had cash balances amounting to HK\$51.0 million (31 December 2018: HK\$97.5 million). Gearing ratio (net borrowings to shareholders' equity) as at 30 June 2019 was 0.26 (31 December 2018: 0.17).

PLEDGE OF ASSETS

As at 30 June 2019, the Group's equity interest in Apex Capital Business Limited and its subsidiaries were pledged to secure the HK\$222.6 million convertible bond (31 December 2018: HK\$219.5 million).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any contingent liabilities (31 December 2018: Nil).

CAPITAL COMMITMENTS

The Group has the following capital commitments at the end of the reporting period:

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	–	300

FINANCE LEASE OBLIGATIONS

As at 30 June 2019, the Group has no outstanding obligations under finance lease (31 December 2018: Nil).

FOREIGN EXCHANGE RISK

Most of the Group's revenues are transacted in US dollars and Hong Kong dollars while expenses are mainly in US dollars, Hong Kong dollars and Renminbi. In view of the prevailing financial market situation, the Group did not engage in any foreign exchange hedging products for the exposure of currency risk of Renminbi during the period. The Group still monitors fluctuations in exchange rates closely and manages the currency risk involved actively.

EMPLOYEES

As at 30 June 2019, the Group had a total workforce of approximately 691 employees in Hong Kong and Mainland China. The Group remunerates its staff based on their merit, qualification, competence and prevailing market salaries trend. In addition to salary and year-end bonus, the remuneration packages also comprised of share option scheme, provident fund contributions, medical and life insurances.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

APPRECIATION

On behalf of the Board, I would like to express our utmost gratitude to our customers, bankers, suppliers, strategic partners and most valued shareholders for their continued support. We also wish to thank the Group's management and staff for their professionalism, loyalty and contribution to the Group.

By order of the Board

Wang Liang

Chairman

Hong Kong, 23 August 2019

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 30 June 2019, details of the interests and short positions of each of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in shares of the Company

Name of directors	Capacity in which interests are held	Number of shares/ underlying shares held	Approximate percentage
Mr. Wang Liang (Note 1)	Beneficial owner	2,246,000,000	22.92
Mr. Du Dong (Note 2)	Beneficial owner	5,000,000	0.05
Mr. Lo Yuen Wa Peter (Note 2)	Beneficial owner	1,500,000	0.02
Mr. Chen Hui (Note 2)	Beneficial owner	5,000,000	0.05
Mr. Cheung Wing Ping (Note 2)	Beneficial owner	1,000,000	0.01
Mr. Ha Kee Choy Eugene (Note 2)	Beneficial owner	1,000,000	0.01
Mr. To Shing Chuen (Note 2)	Beneficial owner	1,000,000	0.01

Notes:

1. The 2,246,000,000 shares included 6,000,000 share options granted to Mr. Wang Liang under the share option scheme of the Company on 12 December 2017, which was vested on 10 June 2019. Ms. Qiao Yanfeng ("Ms. Qiao", a substantial shareholder of the Company and Mr. Wang Liang's mother) is deemed to be interested in 600,000,000 shares through TY Technology Group Limited which is in turn owned as to 90% by Wise Tech Enterprises Incorporated (wholly-owned by Ms. Qiao) and 10% by Truthful Bright International Holding Limited (wholly-owned by Ms. Qiao). Mr. Wang Liang together with Ms. Qiao were interested in the aggregate of 2,846,000,000 shares, representing approximately 29.05% of the issued shares of the Company.
2. The interest held by these directors represents the share options granted to the Directors under the share option scheme of the Company on 12 December 2017 and was vested on 10 June 2019.

Save as disclosed above, as at 30 June 2019, the Company had not been notified of any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The Company adopted a share option scheme on 18 May 2012, details of which were disclosed in the Company's prospectus dated 28 June 2012 and are set out in note 18, to these unaudited interim condensed consolidated financial statements.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2019, details of the interests and short positions of every person, other than directors or the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholders	Capacity in which interests are held	Number of shares held (long position)	Approximate percentage
Mr. Wang Liang (Note 1)	Beneficial owner	2,246,000,000	22.92
Ms. Qiao Yanfeng (Note 2)	Interest in controlled corporations	600,000,000	6.12
Mr. Qin Fen	Beneficial owner	789,880,000	8.06

Notes:

1. The 2,246,000,000 shares included 6,000,000 share options granted to Mr. Wang Liang under the share option scheme of the Company on 12 December 2017, which was vested on 10 June 2019.
2. Ms. Qiao Yanfeng ("Ms. Qiao") is deemed to be interested in 600,000,000 shares through TY Technology Group Limited which is in turn owned as to 90% by Wise Tech Enterprises Incorporated (wholly-owned by Ms. Qiao) and 10% by Truthful Bright International Holding Limited (wholly-owned by Ms. Qiao).

Save as disclosed above, as at 30 June 2019, the Company had not been notified of any interests or short positions of any person, other than directors or the chief executive of the Company, in the shares or underlying shares of the Company required to be recorded in the register kept by the Company under Section 336 of the SFO.

OTHER INFORMATION

UPDATE ON USE OF PROCEEDS IN RELATION TO FUND RAISING ACTIVITIES

The Company would like to provide the update in respect of the use of the net proceeds in relation to the past fund raising activities as at 30 June 2019:

Reference is made to the announcements of the China Touyun Tech Group Limited (the “Company”) dated 10 August 2016, 9 November 2016, 18 November 2016, 24 January 2017, 21 February 2017, 3 October 2017 and 10 November 2017 and 31 August 2018 in relation to the placing of shares and issue of convertible bond (collectively refer as to “Announcements”). Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Announcements.

	Intended use of proceeds	Actual use of proceeds
(1)	The Company raised HK\$406.1 million net proceeds from the placing of shares in November 2016 and the net proceeds were intended to use as follow:	
(a)	An amount of HK\$263.4 million was used for the redemption of the Promissory Note.	An amount of HK\$263.4 million was utilised for the full redemption of the Promissory Note in the principal amount of HK\$258 million and payment of accrued interest.

* For identification purposes only

Intended use of proceeds	Actual use of proceeds
(b) An amount of HK\$142.7 million is for the expansion and development of its QR code business as to:	
(i) an amount of RMB55 million (equivalent to approximately HK\$63 million) towards an acquisition (the “Acquisition”) of 透雲物聯網科技(北京)有限公司 (previously known as 信碼互通(北京)科技有限公司) (TY Technology (Beijing) Co., Ltd* (previously known as Sigmatrix Technology Co., Ltd.)) in the People’s Republic of China (the “PRC”) by 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co., Ltd.*), an indirect wholly-owned subsidiary of the Company, under the relevant acquisition agreement dated 24 January 2017 which was completed in March 2017;	(i) The Acquisition was completed in March 2017 and an amount of HK\$63 million were fully used towards the Acquisition.
(ii) approximately HK\$14.4 million for the acquisition of plant and equipment (the “Plant and Equipment Acquisition”);	(ii) An amount of HK\$14.4 million was fully used towards the Plant and Equipment Acquisition.
(iii) approximately HK\$58.7 million for research and development, recruitment of technical staff and other personnel and other working capital needs for QR code business (the “Research & Development”); and	(iii) An amount of HK\$58.7 million was fully utilised in the Research & Development.

* For identification purposes only

OTHER INFORMATION

Intended use of proceeds	Actual use of proceeds
<p>(iv) approximately HK\$6.6 million for the purchase of transportation and office supplies to support the “Finding the origins of the edible goods program” in different provinces in the PRC (the “Purchase of Transportation and Supplies”).</p>	<p>(iv) An amount of HK\$3.2 million was utilised in the Purchase of Transportation and Supplies and HK\$3.4 million has not yet been utilised and expected to be utilised in 2019.</p>
<p>(2) An amount of net proceeds of US\$39.6 million (equivalent to HK\$309.4 million) was raised from issue of US\$40 million 7% interest convertible bond in November 2017. The Company early redeemed US\$13 million (equivalent to HK\$101.4 million) in principal amount of the CB in August 2018. Therefore, the net proceeds were intended to use as follows:</p>	
<p>(a) An amount of HK\$172.5 million were used for expansion and development of QR code business; and</p>	<p>An amount of HK\$127.7 million was utilised for the expansion and development of QR code business and HK\$44.8 million has not been utilised. The unutilised amount is expected to be utilised in 2019 and applied for the same purposes as disclosed in the Announcements.</p>
<p>(b) An amount of HK\$30.8 million were used for general working capital of corporate office.</p>	<p>An amount of HK\$30.8 million was fully utilised for general working capital of corporate office.</p>

SIGNIFICANT INVESTMENT HELD

As at 30 June 2019, the Group held listed investments, unlisted investments and investment in an associate of approximately HK\$104.3 million, HK\$256.1 million and HK\$193.5 million respectively, details of which were set out as follows:

Nature of investments	Number of	Percentage of	Fair value	Fair value		Percentage	Investment
	shares held	shareholding	change for	as at	as at	to the Group's	
	as at	as at	period ended	30 June	31 December	as at	cost
	30 June 2019	30 June 2019	30 June 2019	2019	2018	30 June 2019	HK\$'000
		%	HK\$'000	HK\$'000	HK\$'000	%	
Financial assets at fair value through profit or loss							
<i>Unlisted Investments</i>							
Freewill Holdings Limited ("Freewill")	14,550,000	2.95	(12,002)	11,291	23,293	1.68	80,025
Co-Lead Holdings Limited ("Co-Lead")	363	3.46	(22,487)	108,325	130,812	16.11	145,200
Liberty Capital Limited ("Liberty")	360	20.00	(1,425)	47,535	-	7.07	48,960
Satinu Resources Group Limited ("Satinu")	9,108,328	0.59	(2,822)	31,699	34,521	4.71	53,217
Simagi Finance Company Limited ("Simagi")	13,000,000	13.09	2,834	57,217	54,383	8.51	65,000
			(35,902)	256,067	243,009	38.08	392,402

Nature of investments	Number of	Percentage of	Share of	Carrying amount		Percentage	Investment
	shares held	shareholding	profit	as at	as at	to the Group's	
	as at	as at	for period	30 June	31 December	as at	cost
	30 June 2019	30 June 2019	30 June 2019	2019	2018	30 June 2019	HK\$'000
		%	HK\$'000	HK\$'000	HK\$'000	%	
Investment in an associate							
<i>Unlisted Investments</i>							
FreeOpt Holdings Limited ("FreeOpt")	1,500,000	31.38	44,611	193,455	148,844	28.77	150,000

OTHER INFORMATION

Nature of investments	Number of shares held as at 30 June 2019	Percentage of shareholding as at 30 June 2019	Unrealised loss on fair value change for period ended 30 June 2019	Dividends received for period ended 30 June 2019	Fair value		Percentage to the Group's net assets as at 30 June 2019	Investment cost HK\$'000
			HK\$'000	HK\$'000	as at 30 June 2019	31 December 2018		
Financial assets at fair value through profit or loss								
<i>Listed Investments</i>								
Oshidori International Holdings Ltd. ("Oshidori")	75,000,000	1.29	18,141	1,069	73,500	24,250	10.93	78,776
Grand Baoxin Auto Group Ltd. ("Grand Baoxin")	8,469,000	0.30	1,943	-	27,270	-	4.06	25,327
China Dili Group ("China Dili")	1,500,000	0.03	(133)	-	3,570	-	0.53	3,703
			19,951	1,069	104,340	24,250	15.52	107,806

Freewill is principally engaged in the business of investment holding.

Co-Lead is principally engaged in securities trading and investment holding businesses. Its investment portfolio consists of listed and unlisted securities.

Liberty is principally engaged in the business of investment holding, property investment, SFC with License to carry out licence Type 1 (Dealing in securities), Type 2 (Dealing in futures contracts) and Type 9 (Asset management) regulated activities under the Securities and Futures Ordinance.

Satinu is principally engaged in integrated financial services, securities brokerage services, money lending, securities and other direct investments.

Simagi is principally engaged in the money lending businesses.

FreeOpt is principally engaged in the provision of finance and money lending businesses.

Oshidori is principally engaged in investment holdings, trading and investment in securities, and the provisions of (i) securities brokerage services; (ii) placing and underwriting services; (iii) corporate financial advisory services; (iv) money lending services; (v) investment advisory and asset management services; and (vi) margin financing services.

Grand Baoxin is principally engaged in the sales and services of motor vehicles. Its business mainly includes new car sales, after-sales maintenance, auto beauty, retrofitting, used car sales, auto insurance, auto parts and related-product sales business.

China Dili is principally engaged in the operation of agriculture wholesale markets in the PRC.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2019 except one non-executive director did not attend the annual general meeting of the Company held on 5 June 2019 (“2019 AGM”) due to other business engagement. The Company considers that the members of the Board who attended the 2019 AGM were able to sufficiently answering questions from shareholders at the 2019 AGM.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by directors. Specific enquiries have been made on all directors who have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2019.

REVIEW OF INTERIM RESULTS

The Audit Committee has discussed with the management and independent auditors the accounting policies and practices adopted by the Group, and has reviewed the Group’s unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Fair value gains/(losses) on financial assets at fair value through profit or loss held for trading, net	4	19,951	(2,875)
Revenue	4	161,697	162,182
Cost of sales		(111,412)	(114,676)
Gross profit		50,285	47,506
Other income, gains and losses, net	5	(80,447)	10,721
Selling and distribution expenses		(11,331)	(15,001)
Administrative expenses		(79,586)	(108,790)
Finance costs	6	(11,155)	(19,671)
Share of result of a joint venture		–	5,059
Share of result of an associate		44,611	–
Loss before tax	7	(67,672)	(83,051)
Income tax expense	8	(1,205)	(49)
Loss for the period		(68,877)	(83,100)
Loss attributable to			
– Owners of the Company		(70,955)	(82,838)
– Non-controlling interests		2,078	(262)
		(68,877)	(83,100)
Loss per share attributable to owners of the Company	10		
– Basic and diluted		HK0.72 cents	HK0.85 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Loss for the period	(68,877)	(83,100)
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(2,202)	7,583
Other comprehensive (loss)/income for the period, net of tax	(2,202)	7,583
Total comprehensive loss for the period	(71,079)	(75,517)
Total comprehensive (loss)/income attributable to:		
— Owners of the Company	(73,157)	(75,255)
— Non-controlling interests	2,078	(262)
	(71,079)	(75,517)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
<i>Non-current assets</i>			
Property, plant and equipment	11(a)	35,735	36,423
Right-of-use assets	11(b)	26,831	–
Intangible assets		10,973	16,054
Goodwill	12	107,498	164,702
Interests in an associate		193,455	148,844
Financial assets at fair value through profit or loss	13	256,067	243,009
		630,559	609,032
<i>Current assets</i>			
Inventories		32,573	35,597
Trade and bills receivables	14	64,515	61,804
Prepayments, deposits and other receivables		15,464	16,140
Note receivable	15	100,000	188,440
Financial assets at fair value through profit or loss	13	104,340	24,250
Restricted deposits		10,934	10,928
Cash and cash equivalents		51,008	97,513
		378,834	434,672
<i>Current liabilities</i>			
Trade payables	16(a)	38,656	42,121
Other payables and accruals	16(b)	24,212	17,883
Contract liabilities		22,207	28,883
Lease liabilities		15,228	–
Tax payable		546	4,926
Derivative embedded in convertible bond	17	1,049	3,140
Convertible bond	17	222,612	219,461
		324,510	316,414
Net current assets		54,324	118,258
Total assets less current liabilities		684,883	727,290
<i>Non-current liabilities</i>			
Deferred tax liabilities		98	42
Lease liabilities		12,376	–
		12,474	42
Net assets		672,409	727,248

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Equity		
Equity attributable to owners of the Company		
Share capital	97,973	97,973
Reserves	570,399	628,819
	668,372	726,792
Non-controlling interests	4,037	456
Total equity	672,409	727,248

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Note	Attributable to owners of the Company								Non-controlling interests HK\$'000	Total equity HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
At 1 January 2018 (audited)	97,973	1,769,428	45,291	(34,425)	10,006	3,938	(934,869)	957,342	542	957,884
Impact on initial application of HKFRS 15	-	-	-	-	-	(87)	(3,337)	(3,424)	-	(3,424)
Impact on initial application of HKFRS 9	-	-	-	-	-	-	9,514	9,514	-	9,514
At 1 January 2018	97,973	1,769,428	45,291	(34,425)	10,006	3,851	(928,692)	963,432	542	963,974
Loss for the period	-	-	-	-	-	-	(82,838)	(82,838)	(262)	(83,100)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	7,583	-	7,583	-	7,583
Total comprehensive income/(loss) for the period	-	-	-	-	-	7,583	(82,838)	(75,255)	(262)	(75,517)
Recognition of equity settled share-based payments	18	-	-	-	10,084	-	-	10,084	-	10,084
At 30 June 2018 (unaudited)	97,973	1,769,428	45,291	(34,425)	20,090	11,434	(1,011,530)	898,261	280	898,541

Notes	Attributable to owners of the Company								Non-controlling interests HK\$'000	Total equity HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
At 31 December 2018 (audited)	97,973	1,769,428	45,291	(34,425)	25,211	5,218	(1,181,904)	726,792	456	727,248
Impact on initial application of HKFRS 16	2	-	-	-	-	-	(811)	(811)	-	(811)
At 1 January 2019	97,973	1,769,428	45,291	(34,425)	25,211	5,218	(1,182,715)	725,981	456	726,437
Loss for the period	-	-	-	-	-	-	(70,955)	(70,955)	2,078	(68,877)
Other comprehensive loss for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	(2,202)	-	(2,202)	-	(2,202)
Total comprehensive income/(loss) for the period	-	-	-	-	-	(2,202)	(70,955)	(73,157)	2,078	(71,079)
Partial disposal of a subsidiary	-	-	-	-	-	-	-	-	1,502	1,502
Recognition of equity settled share-based payments	18	-	-	-	15,549	-	-	15,549	-	15,549
Share option lapsed	-	-	-	-	(3,345)	-	3,345	-	-	-
Transactions with equity shareholders and non-controlling interests	-	-	-	-	12,204	-	3,345	15,549	1,502	17,051
At 30 June 2019 (unaudited)	97,973	1,769,428	45,291	(34,425)	37,415	3,016	(1,250,325)	668,373	4,036	672,409

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

		Six months ended 30 June	
Notes		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Cash flows from operating activities			
		(69,080)	(66,164)
		85	874
		(7,371)	(11,226)
		(5,585)	(196)
		(81,951)	(76,712)
Cash flows from investing activities			
	15	100,000	–
	11(a)	(2,897)	(42,050)
		4	30,993
		(3,040)	(5,739)
		(48,960)	–
		1,500	–
		(6)	–
		46,601	(16,796)
Cash flows from financing activities			
		(8,285)	(2,474)
		(8,285)	(2,474)
Net decrease in cash and cash equivalents		(43,635)	(95,982)
		97,513	348,655
		(2,870)	3,103
Cash and cash equivalents at end of period		51,008	255,776

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

1. CORPORATE INFORMATION

China Touyun Tech Group Limited (the “Company”) was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company with limited liability on 24 October 2011. The principal place of business of the Company is located at 12th Floor, Kwan Chart Tower, 6 Tonnochy Road, Wan Chai, Hong Kong.

During the period, the principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are (i) provision of QR codes on product packaging and solutions and advertising display services; (ii) the manufacture and sale of packaging products; and (iii) investments and trading in securities and money lending.

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2018.

These unaudited interim condensed consolidated financial statements have been prepared under the historical cost conversion, except for equity investments classified as financial assets at fair value through profit or loss and derivative component of convertible bond, which have been measured at fair value. These unaudited interim condensed consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is the Company’s functional currency, and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, except for the adoption of the new and amendments to HKFRSs which are mandatory effective for the annual period beginning on or after 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

2. BASIS OF PREPARATION *(Continued)*

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these unaudited interim condensed consolidated financial statements.

Impacts and changes in accounting policies of application on HKFRS 16

Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases, and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of office buildings and office equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

2. BASIS OF PREPARATION *(Continued)*

Impacts and changes in accounting policies of application on HKFRS 16

Leases (Continued)

Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the unaudited interim condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

2. BASIS OF PREPARATION *(Continued)*

Impacts and changes in accounting policies of application on HKFRS 16

Leases (Continued)

Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

2. BASIS OF PREPARATION *(Continued)*

Impacts and changes in accounting policies of application on HKFRS 16

Leases (Continued)

Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

2. BASIS OF PREPARATION *(Continued)*

Impacts and changes in accounting policies of application on HKFRS 16

Leases (Continued)

Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect (if any) recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening balance of equity and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

2. BASIS OF PREPARATION *(Continued)*

Impacts and changes in accounting policies of application on HKFRS 16

Leases (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$17,092,000 and right-of-use assets of HK\$16,281,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied was 4.84%.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

2. BASIS OF PREPARATION *(Continued)*

Impacts and changes in accounting policies of application on HKFRS 16

Leases (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

	At 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	17,918
Less:	
Recognition exemption — short-term leases	(602)
Subtotal	17,316
Lease liabilities discounted at relevant incremental borrowing rate as at 1 January 2019	17,092
Analysed as	
Current	10,163
Non-current	6,929
	17,092

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

2. BASIS OF PREPARATION *(Continued)*

Impacts and changes in accounting policies of application on HKFRS 16

Leases (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	At 1 January 2019 HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	16,281
By class:	
Office buildings	16,251
Office equipment	30
	16,281

The following table summarises the impact of transition to HKFRS 16 on accumulated losses at 1 January 2019.

	Impact of adopting HKFRS 16 at 1 January 2019 HK\$'000
Accumulated losses	811
Impact at 1 January 2019	811

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

2. BASIS OF PREPARATION *(Continued)*

Impacts and changes in accounting policies of application on HKFRS 16

Leases (Continued)

Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the unaudited interim condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustment HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
Non-current assets			
Right-of-use assets	–	16,281	16,281
Current liabilities			
Lease liabilities	–	(10,163)	(10,163)
Non-current liabilities			
Lease liabilities	–	(6,929)	(6,929)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

Significant changes in significant judgements and key sources of estimation uncertainty

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last financial statements, except for the new significant judgements related to lease accounting under HKFRS 16, which are describe as below:

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

3. OPERATING SEGMENT INFORMATION

The Group has three reportable operating segments. The segments are managed separately as each business offers different products or provides different services and requires different business strategies.

The following summary describes the operations in each of the Group's reportable segments:

- QR code business segment — Provision of QR code on product packaging and solutions and advertising display services
- Packaging products segment — Manufacture and sale of watch boxes, jewellery boxes, eyewear cases, bags and pouches and display units
- Treasury investment segment — Investments and trading in securities and money lending

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that finance costs, share of result of an associate, share of result of a joint venture and head office and corporate income and expenses are excluded from such measurement.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

3. OPERATING SEGMENT INFORMATION *(Continued)*

There was no inter-segment sale or transfer during the period (six months ended 30 June 2018: Nil). Corporate and unallocated income, gains and losses and expenses are not allocated to the operating segments as they are not included in the measure of the segments' results that is used by the chief operating decision makers for assessment of segment performance.

For the six months ended 30 June

	QR code business		Packaging products		Treasury investment		Total	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Group's revenue	29,069	37,178	131,559	124,772	1,069	232	161,697	162,182
Fair value gains/(losses) on financial assets at fair value through profit or loss held for trading, net	-	-	-	-	19,951	(2,875)	19,951	(2,875)
Segment revenue	29,069	37,178	131,559	124,772	21,020	(2,643)	181,648	159,307
Segment results	(81,496)	(52,625)	7,109	(680)	21,000	(2,664)	(53,387)	(55,969)
Corporate and unallocated income, gains and losses							(21,762)	7,353
Corporate and unallocated expenses							(25,979)	(19,823)
Share of result of a joint venture							-	5,059
Share of result of an associate							44,611	-
Finance costs							(11,155)	(19,671)
Loss before tax							(67,672)	(83,051)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, value of services rendered, net fair value gains and losses on financial assets at fair value through profit or loss and dividend income on investment portfolio.

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

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Manufacturing and sales of packaging products	131,559	124,772
Provision of QR code packaging products and solutions	28,364	36,304
Advertising display service income	705	874
	160,628	161,950
Dividend income from financial assets at fair value through profit or loss held for trading	1,069	232
	161,697	162,182
Fair value gains/(losses) on financial assets at fair value through profit or loss held for trading, net*	19,951	(2,875)

* The Group did not dispose of any listed equity investments classified as financial assets at fair value through profit or loss held for trading for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

The revenue within the scope of HKFRS 15 for the six months ended 30 June 2019 were categorised by timing of revenue recognition at (i) a point in time of HK\$157,824,000 (six months ended 30 June 2018: HK\$147,480,000) and (ii) over time of HK\$2,804,000 (six months ended 30 June 2018: HK\$14,470,000).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

4. REVENUE *(Continued)*

Revenue analysed by geographical locations of customers is presented as follows:

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
QR code business		
— PRC	28,364	36,304
Packaging products		
— Hong Kong and the PRC	54,989	54,813
— Europe	51,613	44,871
— North and South America	12,754	14,702
— Others	12,203	10,386
	131,559	124,772
Advertising income		
— PRC	705	874
Treasury investment		
— Hong Kong	21,020	(2,643)
	181,648	159,307

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

5. OTHER INCOME, GAINS AND LOSSES, NET

An analysis of the Group's other income, gains and losses, net is as follows:

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Bank interest income	85	874
Imputed interest income from note receivable	9,452	–
Gain on partial redemption of note receivable	2,108	–
Foreign exchange differences, net	402	(1,327)
Gain on disposal of property, plant and equipment	1	2,405
Fair value gain on embedded derivative in convertible bond	2,091	3,130
Fair value change on financial assets at fair value through profit or loss (not held for trading), net	(35,902)	4,676
Impairment loss of trade receivables	(1,309)	(161)
Impairment loss of goodwill	(57,204)	–
Others	(171)	1,124
	(80,447)	10,721

6. FINANCE COSTS

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Interest expense on convertible bond	10,522	19,365
Interest on lease liabilities (2018: Interest on obligations under finance leases)	633	306
	11,155	19,671

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Depreciation of property, plant and equipment	3,014	12,761
Depreciation of right-of-use assets	7,605	–
Amortisation of intangible assets	8,361	210
Employee benefits expenses (including directors' remuneration):		
Salaries, wages and other benefits	59,775	74,436
Pension scheme contributions	4,834	4,872
Equity-settled share based payments	15,549	10,084
	80,158	89,392

8. INCOME TAX

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, for the six months ended 30 June 2019 and 30 June 2018, the Hong Kong Profits Tax of Qualipak Manufacturing Limited, a subsidiary of the Group, is calculated at 8.25% on the first HK\$2,000,000 of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2,000,000 and profits of other group entities in Hong Kong are taxed at 16.5%.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

8. INCOME TAX *(Continued)*

In accordance with the PRC Corporate Income Tax Law, the PRC Corporate Income Tax is calculated at a statutory rate of 25% (six months ended 30 June 2018: 25%) of the assessable profits except for 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co. Ltd.*) (“SHTY”) and 透雲物聯網科技(北京)有限公司 (previously known as 信碼互通(北京)有限公司) (TY Technology (Beijing) Co. Ltd.* (previously known as Sigmatrix Technology Co. Ltd.*, “BJTY”), two indirect wholly-owned subsidiaries of the Group. Both companies obtained the High-new Technology Certificate for the years from 2017 to 2020 and were entitled to a tax rate of 15%.

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Current tax — Hong Kong Profits Tax		
Provision for the period	713	(505)
Current tax — PRC Corporate Income Tax	548	568
Deferred tax	1,261 (56)	63 (14)
	1,205	49

9. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

* For identification purposes only

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic and diluted loss per share attributable to owners of the Company for the six months ended 30 June 2019 and 2018 are based on the following data:

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Loss for the period attributable to owners of the Company	(70,955)	(82,838)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	'000 9,797,311	'000 9,797,311

The computation of diluted loss per share for the six months ended 30 June 2019 does not assume the conversion of the Company's outstanding convertible bond and the exercise of share options since their assumed exercise would result in a decrease in loss per share.

11. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

(a) Property, plant and equipment

During the six months ended 30 June 2019, the Group incurred HK\$2,897,000 (six months ended 30 June 2018: HK\$49,126,000) on the acquisition of property, plant and equipment. Property, plant and equipment with aggregate carrying amount of HK\$3,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$28,588,000).

(b) Right-of-use assets

The amount represents right-of-use assets relating to operating leases recognised upon application of HKFRS 16. The adjustments upon application as at 1 January 2019 are set out in note 2. During the six months ended 30 June 2019, the Group entered into new lease agreements for use of office buildings for 1 to 3 years, and therefore recognised the additions of right-of-use assets of HK\$17,994,000. The Group is required to make fixed monthly payments.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

12. GOODWILL

	HK\$'000
Cost	
At 1 January 2018, 31 December 2018 (audited) and 30 June 2019 (unaudited)	569,947
Accumulated impairment losses	
At 1 January 2018	368,222
Impairment losses	37,023
At 31 December 2018 (audited)	405,245
Impairment losses	57,204
At 30 June 2019 (unaudited)	462,449
Net carrying amount	
At 30 June 2019 (unaudited)	107,498
At 31 December 2018 (audited)	164,702

In 2018, as a result of the reorganisation and integration of operation and management of (1) a group of subsidiaries engaged in the provision of QR codes on product packaging and solutions and advertising display services acquired in August 2016 (the "Apex Group") and (2) BJTY, a subsidiary of the Group engaged in the provision of QR code on product packaging acquired in March 2017, goodwill has been allocated to a group of CGUs that comprise the Apex Group and BJTY (the "QR Code CGUs"). The QR Code CGUs that comprise the Apex Group and BJTY represented the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment presented in note 3.

As at 30 June 2019, the carrying amount of goodwill allocated to the group of QR Code CGUs was HK\$107,498,000 (31 December 2018: HK\$164,702,000), in which an impairment loss on goodwill of HK\$57,204,000 was recognised in profit or loss for the six months ended 30 June 2019, that is attributable to the aggregated recoverable amount of the group of QR Code CGUs calculated based on value in use method amounting to HK\$162,512,000 (31 December 2018: HK\$215,678,000) which is lower than its carrying value.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Non-current assets		
Unlisted equity investments, at fair value (Note (a))		
Company A	108,325	130,812
Company B	11,291	23,293
Company C	31,699	34,521
Company D	57,217	54,383
Company E	47,535	–
	256,067	243,009
Current assets		
Listed equity investments, at fair value (Note (b))	104,340	24,250

Notes:

- (a) The unlisted equity investments relate to investments in five private entities, which were intended to hold for long-term strategic purpose at the time of acquisition. The five private entities are engaged in the provision of advisory and financial services, property holding, investment in securities trading and money lending.
- (b) The above financial assets at 30 June 2019 and 31 December 2018 were classified as held for trading and were, upon initial recognition, classified by the Group as financial assets at fair value through profit or loss.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

14. TRADE AND BILLS RECEIVABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade and bills receivables	67,039	63,145
Less: Impairment	(2,524)	(1,341)
	64,515	61,804

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period generally ranges from 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 1 month	26,133	30,929
1 to 2 months	21,139	16,463
2 to 3 months	2,204	7,067
Over 3 months	15,039	7,345
	64,515	61,804



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

15. NOTE RECEIVABLE

During the year ended 31 December 2018, the Group has disposed of the entire equity interest of a financial asset at fair value through profit or loss, Win Wind Capital Limited (“Win Wind”), which was satisfied by a promissory note issued by an independent third party, Enerchina Holdings Limited (the “Purchaser”, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange). The Company ceased to hold any beneficial interest in Win Wind upon completion of the disposal on 24 July 2018.

The principal amount of the promissory note was HK\$320,000,000 and the fair value of the promissory note at initial recognition was approximately HK\$285,154,000. The promissory note bears zero coupon rate with maturity date of 30 June 2019. The promissory note was measured at amortised cost with an effective interest rate of 13%. The Purchaser early repaid promissory note amounting to HK\$120,000,000 and HK\$100,000,000 in August 2018 and April 2019, respectively. In June 2019, the Purchaser and Victor Choice Global Limited (an indirect wholly owned subsidiary of the Company) entered into a deed of extension whereby the parties agreed to extend the maturity date of the promissory note from 30 June 2019 to 30 September 2019. Other than the aforesaid amendments, the terms and conditions of the promissory note shall remain unchanged and in full force and effect. As at 30 June 2019, the carrying amount of the promissory note was approximately HK\$100,000,000.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

16. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS

(a) Trade payables

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 1 month	17,974	24,698
1 to 2 months	9,781	9,442
2 to 3 months	2,338	3,908
Over 3 months	8,563	4,073
	38,656	42,121

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

(b) Other payables and accruals

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Deposits received	–	154
Other payables	10,428	2,439
Accruals	13,784	15,290
	24,212	17,883

Other payables and accruals are non-interest-bearing and are normally settled with three months.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

17. CONVERTIBLE BOND

On 3 October 2017, the Company and China Huarong International Holdings Limited (the “Subscriber”) entered into an agreement (the “CB Agreement”), pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the convertible bond (“CB”) in the aggregate principal amount of US\$40,000,000 (equivalent to HK\$312,000,000). The net proceeds from the issue of the CB of approximately US\$39,671,000 (equivalent to HK\$309,439,000) will be used for development of the business operations of SHTY, a subsidiary of the Company, in particular, Touyun Retailers Management System, and for other general corporate purposes. The CB Agreement was completed on 10 November 2017 (the “Issue Date”).

The CB is secured by over the share capital or registered capital of certain subsidiaries of the Group and personal guarantee provided by Mr. Wang Liang, a director of the Company. The CB bears interest from and including the Issue Date at the rate of 7.0% per annum, payable semi-annually. The CB will mature on the date falling on the second anniversary of the Issue Date subject to an automatic extension to the third anniversary of the Issue Date if the following conditions are satisfied (the “Maturity Date”):

- (i) the revenue for the six months ending 30 June 2019 as shown in the unaudited consolidated accounts of SHTY shall be not less than RMB500 million; and
- (ii) the total debt of SHTY as at 30 June 2019 as shown in its unaudited consolidated accounts for the six months ending 30 June 2019 shall not be more than 40% of its total assets.

The initial conversion price is HK\$0.492 per share, subject to anti-dilutive adjustments. The CB holder has the right to convert the principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period beginning on, and including, the date falling on the 180th day from the Issue Date and ending on, the Maturity Date.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

17. CONVERTIBLE BOND *(Continued)*

Unless previously redeemed, converted or purchased and cancelled, the Company shall, redeem all the outstanding CB on the Maturity Date at an amount equal to the Redemption Amount*. The Company may give notice to redeem in whole, or in part, such CB for the time being outstanding at the Redemption Amount after the 180th calendar day after the Issue Date. Unless previously redeemed, converted or purchased and cancelled, the CB Holders may give notice to redeem in whole, or in part, such CB for the time being outstanding at the Redemption Amount upon occurrence of two consecutive breaches of certain financial covenants as set forth in the CB Agreement.

* Redemption Amount is defined as an amount equal to the aggregate of (a) the aggregate principal amount of such outstanding CB held by the relevant CB Holder; (b) any accrued but unpaid interest on such outstanding CB on the relevant redemption date; (c) if the sum of the amounts referred in paragraphs (a) and (b) above plus interest already paid on such outstanding CB falls short of making up a return equal to an internal rate of return of 10.0% on the aggregate principal amount of the outstanding CB calculated from the Issue Date until the redemption date, such additional amount which would make up an internal rate of return of 10.0% on the aggregate principal amount of the outstanding CB; and (d) (in respect of any redemption made as a result of any events of default) any default interest accrued but unpaid.

The net proceeds of the CB was HK\$309,439,000, after net off of issuance cost of HK\$2,561,000.

The CB contains two components, debt component and derivatives (including conversion and early redemption options) component. Since the Redemption Amount, the principal payable on the Maturity Date are denominated and settled in United States dollars ("US\$") which is not same as the Company's functional currency which is HK\$, the conversion option will not result in an exchange of a fixed amount of cash (in the context of the functional currency of the Company) for a fixed number of shares and hence the conversion option does not meet the definition of an equity instrument in accordance with the applicable accounting standards. The effective interest rate of the debt component is 13.08%. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

On 31 August 2018, the Company redeemed US\$13.0 million in principal amount of the convertible bond at the Redemption Amount of approximately US\$13.6 million together with the relevant interest up to 31 August 2018 of approximately US\$0.3 million in accordance with the terms of the convertible bond. Upon completion of the redemption, the outstanding principal amount of the convertible bond is US\$27.0 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

17. CONVERTIBLE BOND *(Continued)*

During the year ended 31 December 2018, the Group failed to comply with certain financial covenants of the CB Agreement. As a result of such breach of the financial covenants, the CB Holder has the rights to serve written notice to the Company demand immediate repayment of the CB within 3 months from the date of the notice served. Hence, the CB in principal amount of HK\$210,600,000 (31 December 2018: HK\$210,600,000) at the Redemption Amount of HK\$222,612,000 (31 December 2018: HK\$219,461,000) has been classified as a current liability as at 30 June 2019.

The movement of the components of the convertible bond for the six months ended 30 June 2019 and 31 December 2018 is set out below:

	30 June 2019			31 December 2018		
	Debt component	Derivative component	Total	Debt component	Derivative component	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Audited)
At 1 January	219,461	3,140	222,601	298,558	1,827	300,385
Finance cost-accelerated interest due to breach of financial covenants	-	-	-	5,641	-	5,641
Finance cost-interest paid	(7,371)	-	(7,371)	(18,291)	-	(18,291)
Early redemption (including payment interest accrued)	-	-	-	(105,836)	-	(105,836)
Finance cost-interest charge	10,522	-	10,522	35,546	-	35,546
Loss on early redemption of CB	-	-	-	3,843	-	3,843
Change in fair value	-	(2,091)	(2,091)	-	1,313	1,313
Carrying amount at the end of the period/year	222,612	1,049	223,661	219,461	3,140	222,601
Classified as:						
Current liability	222,612	1,049		219,461	3,140	
	222,612	1,049		219,461	3,140	

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

18. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include (i) any director, officer, employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or its Related Group or a company in which the Group holds an interest or a subsidiary of such company (collectively the “Eligible Group”); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include the Eligible Group; or (iii) a company beneficially owned by the Eligible Group. The Scheme became effective on 18 May 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

“Related Group” means (i) each of the substantial shareholders of the Company, and (ii) each associate and substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the Company or of a substantial shareholder referred to in (i) above, and (iii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (ii) above, and (iv) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iii) above, and (v) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iv) above.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of approval of the refreshment of the Scheme mandate limit on 20 October 2016. The maximum number of shares issuable under the Scheme to each eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

18. SHARE OPTION SCHEME *(Continued)*

The offer of a grant of share options may be accepted within 14 days from the date of 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, save that such period shall not be more than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) closing price of the Company’s shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of an issued ordinary share of the Company on the date of offer of the share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

Pursuant to the Scheme, 119,700,000 options and 97,750,000 options were granted to eligible participants of the Group on 25 January 2017 and 12 December 2017 respectively. On 21 February 2019, the Company granted 504,000,000 share options to eligible participants to subscribe for the ordinary shares of the Company at HK\$0.12 per share. The options holders should be remained as eligible participants throughout the vesting period. Movements of the options, which were granted under the Scheme, during the period were listed below:

Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1 January 2019	Lapsed/ cancelled during the period	Number of options outstanding at 30 June 2019
25/01/2017	0.335	02/07/2018 to 01/07/2022	21,602,500	(5,387,500)	16,215,000
25/01/2017	0.335	02/07/2019 to 01/07/2022	21,602,500	(5,387,500)	16,215,000
25/01/2017	0.335	02/07/2020 to 01/07/2022	21,602,500	(5,387,500)	16,215,000
25/01/2017	0.335	02/07/2021 to 01/07/2022	21,602,500	(5,387,500)	16,215,000
			86,410,000	(21,550,000)	64,860,000

The above options were vested on 2 July 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

18. SHARE OPTION SCHEME (Continued)

Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1 January 2019	Lapsed/ cancelled during the period	Number of options outstanding at 30 June 2019
12/12/2017	0.335	10/06/2019 to 09/06/2023	23,737,500	(162,500)	23,575,000
12/12/2017	0.335	10/06/2020 to 09/06/2023	23,737,500	(162,500)	23,575,000
12/12/2017	0.335	10/06/2021 to 09/06/2023	23,737,500	(162,500)	23,575,000
12/12/2017	0.335	10/06/2022 to 09/06/2023	23,737,500	(162,500)	23,575,000
			94,950,000	(650,000)	94,300,000

The above options were vested on 10 June 2019.

Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1 January 2019	Granted during the period	Number of options outstanding at 30 June 2019
21/02/2019	0.12	21/02/2020 to 20/02/2024	–	168,000,000	168,000,000
21/02/2019	0.12	21/02/2021 to 20/02/2024	–	168,000,000	168,000,000
21/02/2019	0.12	21/02/2022 to 20/02/2024	–	168,000,000	168,000,000
			–	504,000,000	504,000,000

The above options will be vested on 21 February 2020.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

18. SHARE OPTION SCHEME *(Continued)*

The fair value of the share options granted on 25 January 2017, 12 December 2017 and 21 February 2019 are determined using the Binomial Option Pricing Model, was HK\$17,892,000, HK\$17,950,000 and HK\$27,504,000 respectively. The inputs into the Model and the estimated fair value of the share options are as follows:

	25 January 2017	12 December 2017	21 February 2019
Closing price of the shares	HK\$0.285	HK\$0.305	HK\$0.105
Exercise price	HK\$0.335	HK\$0.335	HK\$0.12
Dividend yield	Nil	Nil	Nil
Expected volatility	93.19%	87.92%	94.36%
Risk-free interest rate	1.289%	1.582%	1.423%
Fair value per share option	HK\$0.143 to HK\$0.153	HK\$0.179 to HK\$0.186	HK\$0.054 to HK\$0.055

Expected volatility was estimated based on the historical volatilities of the Company's share price while dividend yield was estimated by the historical dividend payment record of the Company.

During the six months ended 30 June 2019, the Group recognised an expense of HK\$15,549,000 (six months ended 30 June 2018: HK\$10,084,000) as equity-settled share based payments in the condensed consolidated statement of profit or loss with reference to their respective vesting period.

19. CAPITAL COMMITMENTS

The Group has the following capital commitments at the end of the reporting period:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	–	300

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

20. PLEDGE OF ASSETS

As at 30 June 2019, the Group's equity interest in Apex Capital Business Limited and its subsidiaries were pledged to secure the HK\$222.6 million (31 December 2018: HK\$219.5 million) convertible bond.

21. CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any contingent liabilities (31 December 2018: Nil).

22. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT OTHER THAN FAIR VALUE

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost were not materially different from their fair values as at 30 June 2019 and 31 December 2018.

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The Group's finance department headed by a director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the directors and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the directors. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity investments are based on quoted market prices. The Binomial tree option pricing model is used for the fair value of the embedded derivative of the CB. The directors believe that the estimated fair values, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss and other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 30 June 2019

At fair value measurement:

	Fair value measurement using			Total HK\$'000 (Unaudited)
	Quoted prices in active markets (Level 1) HK\$'000 (Unaudited)	Significant observable inputs (Level 2) HK\$'000 (Unaudited)	Significant unobservable inputs (Level 3) HK\$'000 (Unaudited)	
Financial assets at fair value through profit or loss:				
Listed equity investments	104,340	–	–	104,340
Unlisted equity investments	–	–	256,067	256,067
Financial liabilities				
Derivative embedded in the CB	–	–	1,049	1,049

As at 31 December 2018

At fair value measurement:

	Fair value measurement using			Total HK\$'000 (Audited)
	Quoted prices in active markets (Level 1) HK\$'000 (Audited)	Significant observable inputs (Level 2) HK\$'000 (Audited)	Significant unobservable inputs (Level 3) HK\$'000 (Audited)	
Financial assets at fair value through profit or loss:				
Listed equity investments	24,250	–	–	24,250
Unlisted equity investments	–	–	243,009	243,009
Financial liabilities				
Derivative embedded in the CB	–	–	3,140	3,140

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

During the six months ended 30 June 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (31 December 2018: None). The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information of level 3 fair value measurements

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019 and 31 December 2018:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the inputs
Unlisted equity instruments	Adjusted net asset value	The fair value of net assets of the investee	N/A	1% increase in fair value of net assets would result in increase in fair value by HK\$1,196,000 (31 December 2018: HK\$1,541,000)
	Market approach adopted. The value is based on market value of invested capital-to-total asset and price-to-net assets	Market value of invested capital-to-total asset multiple	0.39 to 0.45 (31 December 2018: 0.35 to 0.45)	1% increase in market value of invested capital-to-total asset multiple would result in increase in fair value by HK\$506,000 (31 December 2018: HK\$560,000)
		Price-to-net assets multiple	0.41 to 0.50 (31 December 2018: 0.42 to 0.45)	1% increase in price-to-net assets multiple would result in increase in fair value by HK\$450,000 (31 December 2018: HK\$481,000)
		Lack of marketability discount	10% to 20% (31 December 2018: 10% to 20%)	1% increase in lack of marketability discount would result in decrease in fair value by HK\$113,000 (31 December 2018: HK\$146,000)
Derivative embedded in the CB	Binomial tree option pricing model	Risk free rate	2.09% (31 December 2018: 2.56%)	1% increase in risk-free rate would result in decrease in fair value by Nil* (31 December 2018: Nil*)
		Expected volatility	121.36% (31 December 2018: 106.38%)	10% increase in volatility would result in increase in fair value by Nil* (31 December 2018: Nil*)

* The sensitivity impact is less than HK\$1,000.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy

	Assets Unlisted equity instruments HK\$'000	Liabilities Derivatives embedded in the CB HK\$'000
Carrying amount as at 31 December 2017	–	(1,827)
Initial application of HKFRS 9	420,754	–
Carrying amount as at 1 January 2018	420,754	(1,827)
Acquisitions	120,200	–
Disposals	(285,154)	–
Net loss from fair value adjustment recognised in profit or loss	(12,791)	(1,313)
Carrying amount as at 31 December 2018	243,009	(3,140)
Acquisitions	48,960	–
Net loss from fair value adjustment recognised in profit or loss	(35,902)	2,091
Carrying amount as at 30 June 2019	256,067	(1,049)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

24. MATERIAL RELATED PARTY TRANSACTIONS

Relationship	Type of transaction	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
A company controlled by a director of the Company	Purchase of goods	–	17

Notes:

- (i) The directors of the Company are of the opinion that the above transactions were entered into at terms agreed by both parties and the terms of the transactions were determined by the directors with reference to the terms of similar transactions with unrelated third parties.
- (ii) The related party transactions in respect of the purchase of goods above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

25. EVENTS AFTER THE REPORTING PERIOD

On 5 July 2019, the Board of the Company proposes to put forward to the shareholders approval to the share consolidation on the basis that every four issued and unissued ordinary shares with par value of HK\$0.01 each in the share capital of the Company be consolidated into one ordinary share with par value of HK\$0.04 each in the share capital of the Company (the “Share Consolidation”). Details are set out in the Company’s announcement dated 5 July 2019 and the Company’s circular dated 19 July 2019.

The Share Consolidation became effective on 12 August 2019.