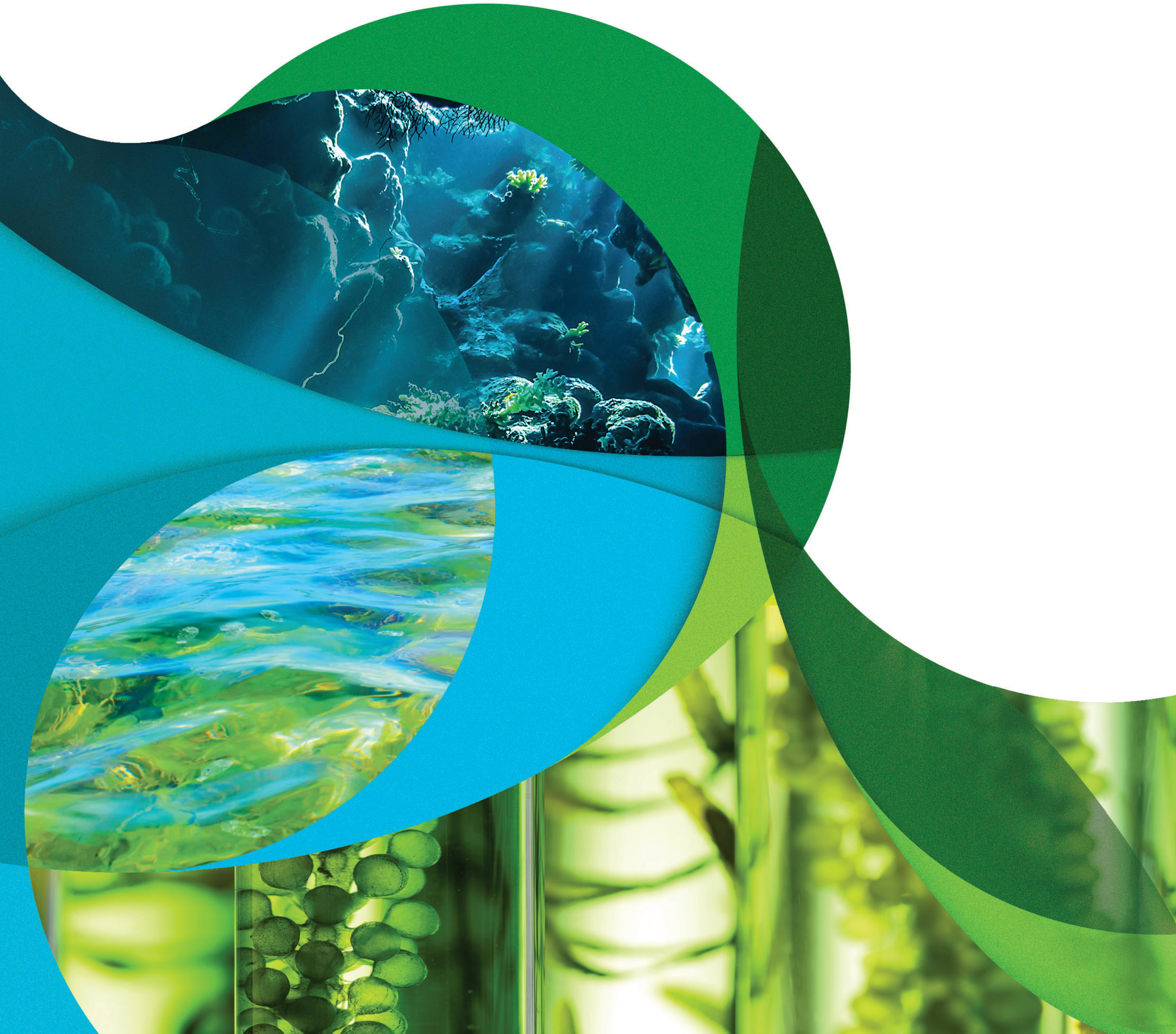
CHINA TOUYUN TECH GROUP LIMITED
中國透雲科技集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 1332

2019
Annual Report



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CORPORATE INFORMATION

DIRECTORS

Executive directors

Mr. Wang Liang *(Chairman)*
Mr. Du Dong
Mr. Lo Yuen Wa Peter

Non-executive directors

Mr. Chen Hui
Ms. Tian Yuze (appointed on 7 April 2020)

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
Registered Public Interest Entity Auditors

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 HM12,
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

CHAIRMAN'S STATEMENT

To our shareholders,

On behalf of the board of directors of China Touyun Tech Group Limited and its subsidiaries (collectively the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2019.

BUSINESS REVIEW

For the year ended 31 December 2019, the Group recorded revenue of approximately HK$342.7 million (2018: HK$348.8 million), representing a decrease of approximately 1.7% as compared to the last year. The decrease in turnover was primarily attributable to the decrease in revenue from packaging products business and QR code business, which was due to the contraction of sales orders in 2019.

The loss for the year ended 31 December 2019 was HK$199.1 million (2018: HK$254.0 million), represents a decrease of 21.6% as compared to financial year 2018.

PROSPECTS

In 2019, the Group is continuously focus on the business of QR codes on product packaging and solutions and packaging products business. The Group will further explore opportunities to amalgamate the business so as to provide a wide range of integrated services to meet the increasing needs of the customers.

APPRECIATION

I would like to express, on behalf of the board of directors of the Company, my sincere appreciation to the management and all staff for their dedication and valuable contributions. I also wish to thank all of our fellow directors for their valuable contribution and shareholders and valued partners for their generous support. We are looking forward to overcoming the challenges with their combined efforts and achieving the Group's success in the future.

Wang Liang
Chairman

Hong Kong, 21 April 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2019, the Group recorded revenue of approximately HK$342.7 million (2018: HK$348.8 million), representing a decrease of approximately 1.7% as compared to the last year. The decrease in turnover was primarily attributable to the decrease in revenue from packaging products business and QR code business, which was due to the contraction of sales orders in 2019.

The loss for the year ended 31 December 2019 was HK$199.1 million (2018: HK$254.0 million), represents a decrease of 21.6% as compared to financial year 2018.

Revenue from QR code business was HK$69.7 million (2018: HK$73.4 million) and its segment loss was HK$199.7 million (2018: HK$195.7 million) during the year ended 31 December 2019. The segment loss of QR code business for the year ended 31 December 2019 was slightly increased by 2% when compared with last year, it was primarily attributable to the increase in impairment loss on goodwill and set off by the decrease in impairment loss of property, plant and equipment and depreciation of property, plant and equipment and control measurements in operating cost. Included in segment loss were impairment loss of goodwill amounted to HK$164,702,000 recognised during the year ended 31 December 2019 (2018: HK$37,023,000). The impairment loss on goodwill were related to the goodwill allocated to QR code cash generating units (the "QR code CGUs"). The Group's QR code businesses face various challenges throughout the year, including the increasing competitors in the market, the lower entry barrier into the QR code market, and the keen competitions in the market. In additions, the COVID-19 impact various business sectors in the PRC, including not only the Group's customers engaged in consumer goods business industry but also the marco economics environment in the PRC. The aggregated recoverable amount of the group of QR Code CGUs was calculated based on value in use method that is lower than the carrying value of the net assets of the group of QR Code CGUs and the goodwill allocated to the group of QR Code CGUs. In view of this, the Group recognized impairment loss on goodwill on QR code of HK$164,702,000 during the year (2018: HK$37,023,000). Details of these are set out in note 17 to the consolidated financial statements.

The packaging products business reported in a revenue of HK$260.3 million for the year ended 31 December 2019 (2018: HK$276.2 million), representing a decrease of 5.8% as compared with last year. The decrease of revenue was largely due to the contraction of sales orders during 2019. A segment profit of HK$20.5 million was recorded during the year ended 31 December 2019 (2018: HK$8.4 million), representing an increase of 144.0% as compared with last year and such increase in segment profit was due to the control measurements in operating cost.

During the year, the Group recorded fair value gain of HK$10.1 million on financial assets at fair value through profit or loss held for trading, compared to the last year amounted to a fair value loss of HK$1.3 million. Fair value loss of financial assets at fair value through profit or loss not held for trading amounting to HK$43.0 million was recognised during the year ended 31 December 2019 (2018: HK$12.8 million), it is largely due to the asset value of the Group's unlisted investments decreased during the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's financial position was prudently monitored and precisely managed throughout the year. As at 31 December 2019, the Group had outstanding (i) HK$225.2 million (2018: HK$219.5 million) secured convertible bond (details of this are set out in note 31); and (ii) HK$11.6 million (2018: Nil) unsecured borrowing bears interest of 10% per annum, repayable within one year. As at 31 December 2019, the Group had cash balances amounting to HK$40.5 million (2018: HK$97.5 million). The gearing ratio (net borrowings to shareholders' equity) was 0.36 (2018: 0.17).

CONVERTIBLE BOND

On 3 October 2017, the Company and China Huarong International Holdings Limited (the "CB holder") entered into an agreement (the "CB Agreement"), pursuant to which the Company has conditionally agreed to issue, and the CB holder has conditionally agreed to subscribe for, the convertible bond (the "CB") in the aggregate principal amount of US$40,000,000. 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 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co. Ltd.*) ("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 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 will bear 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 certain financial convenants are satisfied (the "Maturity Date").

The initial conversion price is HK$0.492 per share (adjusted to HK$1.968 upon share consolidation in August 2019), subject to anit-dilutive adjustment. 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.

On 31 August 2018, the Company redeemed US$13.0 million in principal amount of the CB 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 CB.

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 at the Redemption Amount of HK$219,461,000 has been classified as a current liability as at 31 December 2018.

During the year, the Group repaid principal and interest at amounts of US$420,000 and US$1,915,000 (equivalent to HK$3,276,000 and HK$14,937,000) respectively. As at 31 December 2019, the CB has been past due which is due for immediate payment.

As at 31 December 2019, US$28.8 million (equivalent to HK$225,236,000) of the CB remained outstanding. Pursuant to the Company's announcement dated 15 January 2020 and 16 March 2020, the CB matured on 10 November 2019. The Company has received a letter from the CB holder demanding repayment of the outstanding amount of the CB. The letter did not specify any deadline for repayment. As at the date of this report, no proceedings have been instituted or threatened to be instituted against the Company by the CB holder, and all operations of the Group remain normal.

Subsequent to 31 December 2019, the Company repaid the CB principal and interest at amounts of US$6,000,000 and US$587,000 (equivalent to HK$46,800,000 and HK$4,580,000) respectively. As at the date of this report, US$20,580,000 (equivalent to HK$160,524,000) of the principal amount of the CB remained outstanding. Up to the date of this report, the Company has continued discussions with the CB holder with regards to the repayment arrangement of the CB, including but not limited to, agreeing to a repayment schedule. The Company will disclose material developments on the above matter by way of further announcement(s) in accordance with the requirements of the Listing Rules.

Details of the CB were set out in note 31.

CAPITAL COMMITMENTS

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

	31 December 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	41	300

PLEDGE OF ASSETS

As at 31 December 2019 and 2018, the Group's equity interest in Apex Capital Business Limited and its subsidiaries were pledged to secure the HK$225.2 million (2018: HK$219.5 million) convertible bond.

CONTINGENT LIABILITIES

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

FINANCE LEASE OBLIGATIONS

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

FOREIGN EXCHANGE RISK

The Group's revenues were mainly denominated in US dollars and Renminbi while expenses were mainly conducted in 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 year. However, the Group will still closely monitor fluctuations in exchange rates and actively manage the currency risk involved.

EMPLOYEES

As at 31 December 2019, the Group employed approximately 613 employees in Hong Kong and Mainland China (2018: 876). The Group's remuneration policy is commensurate with merit, qualification and competence of employees. In addition to salary and year-end bonus, the remuneration packages also comprised of share options scheme, provident fund contribution, medical and life insurance.

UPDATE ON USE OF PROCEED 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 31 December 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 and 3 October 2017, and 31 August 2018, in relation to 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:	

* For identification purposes only

Intended use of proceeds	Actual use of proceeds
(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.
(b) An amount of HK$142.7 million is for the expansion and development of its QR codes packaging business as to:	
(i) an amount of RMB55 million (equivalent to approximately HK$63 million) towards an acquisition (the "Acquisition") of 信碼互通(北京)科技有限公司 (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. 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 codes packaging business (the "Research & Development"); and	(iii) An amount of HK$58.7 million were fully utilised in the Research & Development.
(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").	(iv) An amount of HK$3.2 million were utilised in the Purchase of Transportation and Supplies and HK$3.4 million has not yet been utilised and expected to be utilised in 2020 and applied for the same purpose as disclosed in the Announcements.
(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 (equivalents to HK$101.4 million) in principal amount of the CB in August 2018. Therefore, the net proceeds of HK$203.3 million were intended to use as follows:	
(a) An amount of HK$172.5 million were used for expansion and development of QR codes business;	An amount of HK$172.5 million was fully utilised for the expansion and development of QR codes business.
(b) An amount of HK$30.8 million were used for general working capital of corporate office.	An amount of HK$30.8 million was fully utilised for general working capital of corporate office.

SIGNIFICANT INVESTMENT HELD

As at 31 December 2019, the Group held listed investments, unlisted investments and investment in an associate of approximately HK$158.8 million, HK$249.0 million and HK$209.2 million respectively, details of which were set out as follows:

Nature of investments	Number of shares held as at 31 December 2019	Percentage of shareholding as at 31 December 2019 %	Fair value change for year ended 31 December 2019 HK$'000	Fair value as at 31 December 2019 HK$'000	Fair value as at 31 December 2018 HK$'000	Percentage to the Group's net assets as at 31 December 2019 %	Investment cost HK$'000	Net profit/(loss) of the investee HK$'000	Notes
Financial assets at fair value through profit or loss									
Unlisted Investments									
Freewill Holdings Limited ("Freewill")	14,550,000	2.95	(19,268)	4,025	23,293	0.74	80,025	(682,562)	(a)
Co-Lead Holdings Limited ("Co-Lead")	363	3.46	(30,194)	100,618	130,812	18.48	145,200	(1,305,589)	(a)
Liberty Capital Limited ("Liberty")	360	12.86	(1,236)	47,724	–	8.76	48,960	1,587	(a)
Satinu Resources Group Limited ("Satinu")	9,108,328	0.73	2,839	37,360	34,521	6.86	53,217	(89,959)	(b)
Simagi Finance Company Limited ("Simagi")	13,000,000	13.09	4,892	59,275	54,383	10.88	65,000	19,244	(a)
			(42,967)	249,002	243,009	45.72	392,402		

Nature of investments	Number of shares held as at 31 December 2019	Percentage of shareholding as at 31 December 2019 %	Share of profit for year ended 31 December 2019 HK$'000	Carrying amount as at 31 December 2019 HK$'000	Carrying amount as at 31 December 2018 HK$'000	Percentage to the Group's net assets as at 31 December 2019 %	Investment cost HK$'000	Net profit/(loss) of the investee HK$'000	Notes
Investment in an associate									
Unlisted Investments									
FreeOpt Holdings Limited ("FreeOpt")	1,500,000	31.38	60,362	209,206	148,844	38.42	150,000	146,912	(a)

Notes:

The net profit/(loss) of the investee is based on the investee's financial information, which was:

(a) According to its management accounts for year ended 31 December 2019.

(b) According to its management accounts for period ended 30 September 2019.

Nature of investments	Number of shares held as at 31 December 2019	Percentage of shareholding as at 31 December 2019 %	Unrealised gain/(loss) on fair value change for year ended 31 December 2019 HK$'000	Dividends received for year ended 31 December 2019 HK$'000	Fair value as at 31 December 2019 HK$'000	Fair value as at 31 December 2018 HK$'000	Percentage to the Group's net assets as at 31 December 2019 %	Investment cost HK$'000	Net profit/(loss) of the investee HK$'000	Notes
Financial assets at fair value through profit or loss										
Listed Investments										
The Hong Kong and Shanghai Hotels, Ltd. ("HK & S Hotel")	186,500	0.01	80	–	1,557	–	0.29	1,477	494,000	(c)
Y.T. Realty Group Ltd. ("Y.T. Realty")	15,000,000	1.88	2,891	–	33,000	–	6.06	30,109	83,785	(c)
Emperor Culture Group Ltd. ("Emperor Culture")	14,920,000	0.46	115	–	1,194	–	0.22	1,079	(98,974)	(d)
Planetree International Development Ltd. ("Planetree")	1,040,000	0.01	17	–	132	–	0.02	115	32,126	(e)
Oshidori International Holdings Ltd. ("Oshidori")	75,000,000	1.29	17,391	1,393	72,750	24,250	13.36	78,776	(360,014)	(c)
Evergrande Health Industry Group Ltd. ("Evergrande Health")	740,000	0.01	(919)	–	5,750	–	1.06	6,669	(2,208,798)	(e)
CST Group Ltd. ("CST Group")	1,139,832,000	2.95	(1,204)	–	27,356	–	5.02	28,560	(399,352)	(f)
China Dili Group ("China Dili")	1,500,000	0.03	(28)	–	3,675	–	0.67	3,703	635,031	(c)
Ruicheng (China) Media Group Ltd. ("Ruicheng")	462,000	0.12	15	–	1,109	–	0.20	1,094	51,373	(g)
Eternity Technology Holdings Ltd. ("Eternity Tech")	5,400,000	1.80	3,033	–	11,772	–	2.16	8,739	28,339	(c)
WWPKG Holdings Company Ltd. ("WWPKG")	500,000	0.13	43	–	530	–	0.10	487	(10,669)	(h)
			21,434	1,393	158,825	24,250	29.16	160,808		

Notes:

The net profit/(loss) of the investee is based on the investee's financial information, which was:

(c) According to its annual results announcement for year ended 31 December 2019.

(d) According to its interim report for six months ended 31 December 2019.

(e) According to its interim report for six months ended 30 June 2019.

(f) According to its interim report for six months ended 30 September 2019.

(g) According to its prospectus dated 3 October 2019 for year ended 31 December 2018.

(h) According to its third quarterly report for nine months ended 31 December 2019.

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.

HK&S Hotel is principally engaged in (i) operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings; (ii) leasing of commercial and office premises (other than those in hotel properties) and residential apartments and operates food and beverage outlets in such premises; (iii) operation of golf courses, The Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

Y.T. Realty is principally engaged in (i) property investment for rental income; (ii) trading of properties; (iii) provision of property management and related consultancy services; and (iv) operation of and investment in driver training centers, as well as tunnel operation and management.

Emperor Culture is principally engaged in (i) production and investment of films and TV programs; (ii) investment in events, such as concerts, music production and the management of artists and models; (iii) operation of cinema and the provision of theatrical exhibition services in Mainland China; (iv) provision of post production services and visual special effect services for TV commercials and featured films; and (v) investment in securities.

Planetree is principally engaged in (i) holding and trading of debt and equity securities, as well as the provision of financing services; (ii) property investment through an associate; and (iii) leasing of properties.

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.

Evergrande Health is principally engaged in (i) publication of advertisements, the sales of magazines and books, the provision of digital businesses services and the provision of magazine content; and (ii) international hospital businesses, elderly care and rehabilitation businesses, Internet community health management businesses, as well as the provision of plastic surgery, anti-aging and other health services.

CST Group is principally engaged in (i) exploration, mining and sales of minerals; (ii) investment in financial instruments; (iii) investment in properties; (iv) money lending businesses; and (v) operation of e-logistics platforms.

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

Ruicheng is principally engaged in the provision of advertising services in the PRC.

Eternity Tech is principally engaged in the research and development, manufacture and sales of printed circuit board assembly and fully-assembled electronic products.

WWPKG is principally engaged in selling of packaged tours, air tickets and hotel accommodation (free independent traveler Products), and ancillary travel-related products and services in Hong Kong.

In respect of the investment sector of the Group, the recent development of COVID-19, trade war between United States and China and political environment in Hong Kong have brought haze to stock market and investment market in Hong Kong. Although the future prospect of the Hong Kong markets is still uncertain, the management will continue to take a prudent approach to seek potential investments to diversify its investment portfolios and capture investment gains in the future.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. WANG Liang, aged 34, has been appointed as an Executive Director of the Company since 1 September 2016 and the Chairman of the Board since 23 January 2017. He is the Chairman of the Nomination Committee and a member of the Executive Committee and the Remuneration Committee. He also serves as a Director of several subsidiaries of the Company. As Chairman, Mr. Wang is mainly responsible for leading the Board and managing its work to ensure that the Board effectively operates and fully discharges its responsibilities. In addition, he is also in charge of the business of provision of QR codes on product packaging and related business intelligence IT solutions. Mr. Wang holds a bachelor's degree in physics from Imperial College of Science, Technology and Medicine, University of London and a master's degree in international finance from The University of Westminster. He has extensive experience in the international finance and project management. He had been working in international investment banks and responsible for clients' project management, projects merger and acquisition and various initial public offerings. Mr. Wang was formerly an Executive Director (from January 2014 to February 2016), a Chairman (from August 2014 to February 2016), a Non-executive Director (from February 2016 to August 2016) and a Vice-chairman (from February 2016 to August 2016) of Life Healthcare Group Limited (formerly known as Tack Fiori International Group Limited) (stock code: 928). He was also an Executive Director of China Ever Grand Financial Leasing Group Co., Ltd. (formerly known as PME Group Limited) (stock code: 379) from December 2012 to December 2014. The shares of the above companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. DU Dong, aged 34, has been appointed as an Executive Director of the Company since 15 December 2016 .He is a member of the Executive Committee, the Nomination Committee and the Remuneration Committee. He also serves as a Director of several subsidiaries of the Company. Mr. Du is responsible for the daily management of the Group, recommending strategies to the Board, and determining and implementing operational decision. He holds a bachelor's degree of Science (Honors) in Computing Studies (Information Systems) from Hong Kong Baptist University. Mr. Du has extensive experience in investment, capital market, financing, merger and acquisitions of different projects with various investment banks and professional parties. He had been working in listed companies and responsible for investment, financing, projects merger and acquisition, covering coal mining, iron mining and gold mining, terminal and logistic services industry, education industry, financing lease industry and internet industry, etc. Mr. Du has a strong network in the capital market of Hong Kong and the PRC. He has been serving as a Vice President of China Ever Grand Financial Leasing Group Co., Ltd (formerly known as PME Group Limited) (stock code: 379) since November 2013. He was an Assistant to CEO of Theme International Holdings Limited (stock code: 990) from July 2010 to November 2013. The shares of these companies are listed on the Stock Exchange.

Mr. LO Yuen Wa Peter, aged 58, has been appointed as an Executive Director of the Company since 27 May 2015. He is a member of the Executive Committee and also serves as a Director of several subsidiaries of the Company. He is responsible for overseeing the corporate finance and management of the Group. Mr. Lo graduated from the University of Liverpool and obtained his professional qualification in Accountancy in the United Kingdom. He is a member of the Institute of Chartered Accountants in England and Wales. He has 30 years of experience in auditing, accounting, investment, financial and corporate management. Mr. Lo was an Executive Director of HengTen Networks Group Limited (formerly known as Mascotte Holdings Limited) (stock code: 136) from July 2008 to March 2014 and an Executive Director, Managing Director and Acting Chairman of Rentian Technology Holdings Limited (formerly known as Forefront Group Limited) (stock code: 885) from April 2014 to April 2015. The shares of these companies are listed on the Stock Exchange.

NON-EXECUTIVE DIRECTORS

Mr. CHEN Hui, aged 56, has been appointed as a Non-executive Director of the Company since 15 December 2016. He is also a member of the Nomination Committee. Mr. Chen has over 16 years solid experience in information technology. He is an expert in software and hardware engineering, automation and control, and possesses extensive knowledge in Internet of Thing and various sensors. He has been involved in development and application of nearly 40 patents. Mr. Chen has been appointed as a President of 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co. Ltd.*) (formerly known as 上海質尊物聯網科技有限公司), an indirect wholly-owned subsidiary of the Company, since 2011. He was a General Manager of 質尊溯源電子科技有限公司 from 2009 to 2011, a General Manager of 上海質尊電子科技有限公司 from 2004 to 2009, and a Legal Representative of 上海華暉自控設備有限公司 from 2000 to 2004.

Ms. Tian Yuze, aged 28, has been appointed as an Non-Executive Director of the Company since 7 April 2020. Ms. Tian holds a bachelor's degree in Economics (International Economics and Trade) from Beijing Institute of Petrochemical Technology, and a master degree of science from Nottingham Trent University. She has been working as business manager in various entities, responsible for operation strategic planning, global marketing strategies and execution. She has extensive experience and exposure in international trade, sales and supply and business management in both PRC and overseas markets. Ms. Tian has not previously held any position with the Company or any of its subsidiaries. She has not been a director in any other listed companies in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEUNG Wing Ping, aged 53, has been appointed as an Independent Non-executive Director of the Company since 11 August 2015. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. He holds a bachelor's degree in accountancy with honours from City University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung has over 20 years of experience in auditing and accounting fields. He was formerly an Executive Director of Eagle Ride Investment Holdings Limited (formerly known as Radford Capital Investment Limited) (stock code: 901) from June 2011 to November 2013, an Independent Non-executive Director and an Executive Director of Mason Financial Holdings Limited (formerly known as Willie International Holdings Limited) (stock code: 273) from October 2009 to June 2013 and July 2013 to September 2016 respectively, and an Independent Non-executive Director of Freeman Fintech Corporation Limited (stock code: 279), from August 2013 to September 2019. He is currently an Independent Non-executive Director of Oshidori International Holdings Limited (stock code: 622) and China Shandong Hi-Speed Financial Group Limited (formerly known as China Innovative Finance Group Limited) (stock code: 412). The shares of these companies are listed on the Stock Exchange.

Mr. HA Kee Choy Eugene, aged 63, has been appointed as an Independent Non-executive Director of the Company since 26 November 2014. He is also the Chairman of the Audit Committee, a member of the Nomination Committee and the Remuneration Committee. Mr. Ha holds a master's degree in business administration and is a fellow member of the Association of Chartered Certified Accountants. He has over 20 years of experience in the finance and banking industry and acts or/and acted as director of a number of private and listed companies in Hong Kong. He is the director of a certified public accountants corporate practice in Hong Kong. He is currently an Independent Non-executive Director of Longhui International Holdings Limited (stock code: 1007), International Entertainment Corporation (stock code:1009) and Planetree International Development Limited (stock code: 613). The shares of these companies are listed on the Main Board of the Stock Exchange.

Mr. TO Shing Chuen, aged 69, has been appointed as an Independent Non-executive Director of the Company since 26 November 2014. He is also the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee. Mr. To holds a bachelor's degree in arts and has over 20 years of experience in trading, garment and leather field. He enjoys excellent relationship with Mainland China companies. He is currently an Independent Non-executive Director of China Shandong Hi-Speed Financial Group Limited (formerly known as China Innovative Finance Group Limited) (stock code: 412).

* *For identification purpose only*

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of corporate management services. The Group is principally engaged in the (i) provision of QR codes on product packaging and solutions and online advertising display services; (ii) the manufacture and sale of packaging products; and (iii) investments and trading in securities and money lending. Details of the principal activities of the Company's subsidiaries are set out in note 44 to the financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and the Management Discussion and Analysis of this annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the Corporate Governance Report. Also, the financial risk management objectives and policies of the Group can be found in note 41 the financial statements. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2019 are provided in note 43 to the financial statements. In addition, discussions on the Group's environmental policies, compliance with relevant laws and regulations and relationship with its key stakeholders which have a significant impact on the Group are also contained in the Corporate Governance Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Company and of the Group as at 31 December 2019 are set out in the financial statements on pages 63 to 66.

The directors do not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 154. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 33 to the financial statements.

CONVERTIBLE BOND

Details of the convertible bond during the year are set out note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no pre-emptive rights provision in the Companies Act 1981 of Bermuda (as amended from time to time) or in the Company's Bye-laws.

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 year.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had no reserve available for distribution to shareholders as calculated in accordance with the Companies Act 1981 of Bermuda (as amended from time to time). The Company's share premium account in the amount of HK$1,769,428,000 may be distributed in the form of fully paid bonus share.

DIVIDEND POLICY

In considering the payment of dividends, the Board shall maintain adequate cash reserves for meeting its working capital requirements and strike a proper balance between future business growth and rewarding the Shareholders of the Company.

Provided that the daily working capital needs of the Group can be satisfied and funding has been reserved for future development, the Company intends to maintain a relatively stable dividend distribution ratio. However, the Company's dividend distribution record in the past does not necessarily imply that the same level of dividends may be declared or paid by the Company in the future.

In proposing any dividend payout, the Board shall take into account the financial performance and cash flow situation of the Group, future expansion plans and capital requirements, interests of Shareholders, contractual restrictions on payment of dividends, taxation considerations, statutory and regulatory restrictions, general economic conditions, business cycle of the Group's business and any other factors that the Board may consider relevant.

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Company's Memorandum and Articles of Association.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted in the aggregate for 44.7% of total revenue for the year and sales to the largest customer included therein amounted to 12.6%. Purchases from the Group's five largest suppliers accounted in the aggregate for 49.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to 18.8%.

None of the directors, their close associates or shareholders, who to the knowledge of the directors own more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers or suppliers.

DIRECTORS' REPORT

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive Directors:
Mr. Wang Liang *(Chairman)*
Mr. Du Dong
Mr. Lo Yuen Wa Peter

Non-executive Directors:
Mr. Chen Hui
Ms. Tian Yuze (appointed on 7 April 2020)

Independent Non-executive Directors:
Mr. Cheung Wing Ping
Mr. Ha Kee Choy Eugene
Mr. To Shing Chuen

In accordance with Bye-law 83 and 84 of the Company's Bye-laws, Ms. Tian Yuze, Mr. Cheung Wing Ping, Mr. Ha Kee Choy Eugene and Mr. To Shing Chuen will retire by rotation and, being eligible, will offer themselves for re-election at the AGM.

The Company has received from each of the Independent Non-executive Directors, Mr. Cheung Wing Ping, Mr. Ha Kee Choy Eugene and Mr. To Shing Chuen, the written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Board has reviewed their independence based on such confirmations and considers all of them to remain independent during their term of office.

DIRECTORS' BIOGRAPHIES

Biographical details of the existing directors of the Company are set out under the section headed "Directors' Profile".

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the AGM has a service contract with any company in the Group which is not terminable by such company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REMUNERATION DETAILS

Details of the directors' remuneration and the five highest paid employees' remuneration in the Group are set out in notes 9 and 10 to the financial statements respectively.

REMUNERATION POLICY

The remuneration policy for employees of the Group is formulated based on the merit, qualifications and competence of individual employee which are reviewed regularly in order to provide compensation packages at market rates sufficient to reward successful performance and attract, retain and motivate employees. The Company has adopted a share option scheme as a long-term incentive to eligible employees and directors, details of which are set out in note 35 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 31 December 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 corporation (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, were as follows:

Interests in shares of the Company (long positions)

Name of directors	Capacity in which interests are held	Number of shares held	Approximate percentage
Mr. Wang Liang (Note 1)	Beneficial owner	561,500,00	22.92
Mr. Du Dong (Note 2)	Beneficial owner	1,250,000	0.05
Mr. Lo Yuen Wa Peter (Note 2)	Beneficial owner	375,000	0.02
Mr. Chen Hui (Note 2)	Beneficial owner	1,250,000	0.05
Mr. Cheung Wing Ping (Note 2)	Beneficial owner	250,000	0.01
Mr. Ha Kee Choy Eugene (Note 2)	Beneficial owner	250,000	0.01
Mr. To Shing Chuen (Note 2)	Beneficial owner	250,000	0.01

Notes:

1. The 561,500,000 shares included 1,500,000 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 150,000,000 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 711,500,000 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 were vested on 10 June 2019.

Save as disclosed above, as at 31 December 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 corporation (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 (the "Scheme") on 18 May 2012, details of which were disclosed in the note 35 to the financial statements.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 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	561,500,000	22.92
Ms. Qiao Yanfeng (Note 2)	Interest in controlled corporations	150,000,000	6.12
Mr. Qin Fen	Beneficial owner	197,470,000	8.06

Notes:

1. The 561,500,000 shares included 1,500,000 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 150,000,000 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 31 December 2019, the Company had not been notified of any interests or short positions of any other 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.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, subject to the statues, every director of the Company shall be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events which took place subsequent to the reporting period are set out in note 43 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2019 and up to the date of this report as required under the Listing Rules.

INDEPENDENT AUDITORS

The financial statements have been audited by Moore Stephens CPA Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wang Liang
Chairman

Hong Kong, 21 April 2020

* *For identification purpose only*

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance. The board of directors of the Company (the "Board") considers that sound corporate management and governance practices are essential to the Company's healthy growth under all business environments.

CORPORATE GOVERNANCE PRACTICES

During the year, the Company has complied with the code provisions of the Corporate Governance Code (the "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"), except for the following deviations from code provisions A.6.7 of the CG Code:

(i) One non-executive director did not attend the annual general meeting of the Company held on 5 June 2019 (the "2019 AGM") as he had another 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.

(ii) One non-executive director did not attend the special general meeting held on 8 August 2019 ("2019 August SGM"). The Company considers that the members of the Board who attended the 2019 August SGM were able to answer questions from shareholders of 2019 August SGM.

(iii) One non-executive director did not attend the special general meeting held on 7 November 2019 ("2019 November SGM"). The Company considers that the members of the Board who attended the 2019 November SGM were able to answer questions from shareholders of 2019 November SGM.

DIRECTORS' SECURITIES TRANSACTIONS

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 its own code of conduct regarding securities transactions by directors. In response to a specific enquiry by the Company, all directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year.

BOARD OF DIRECTORS

During the year under review, the Board was chaired by Mr. Wang Liang. It consisted of 3 executive directors, one non-executive director and three independent non-executive directors. Names and other biographical details of the existing members of the Board are set out under the heading of "Directors' Profile". The Board assumes responsibility for the leadership and control of the Company and its members are collectively responsible for promoting the business of the Company by formulating the Group's overall strategies and policies, approving the business plans, evaluating the performance of the Group in pursuit of the Group's overall strategies and overseeing the management of the Group. The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The management of the Group is responsible for the day-to-day operations of the Group, and implementing the business strategies and plans formulated and approved by the Board.

All Directors have acted in good faith for the best interests of the Company and the stakeholders of the Company. Other than the statutory duties imposed on each of them, all of the Directors have exercised due care in monitoring the corporate matters of the Company and have provided grave concern, sufficient time and attention to all the significant issues and affairs of the Group.

Each of the independent non-executive Directors has made an annual confirmation to the Company concerning his or her independence pursuant to the Listing Rules. The Company considers that all the independent non-executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and are considered to be independent.

Set out below are details of directors' attendance of board meetings and general meeting in 2019:

Name of directors	Board meeting	General meeting
Executive Directors		
Wang Liang *(Chairman)*	6/6	3/3
Du Dong	6/6	3/3
Lo Yuen Wa Peter	6/6	3/3
Non-executive Director		
Chen Hui	4/6	0/3
Independent Non-executive Directors		
Cheung Wing Ping	6/6	3/3
Ha Kee Choy Eugene	6/6	3/3
To Shing Chuen	6/6	3/3

Save for regular Board meetings held during the year ended 31 December 2019, meetings of the Directors were held to discuss and transact other special businesses. The Board members are provided with appropriate and sufficient information in a timely manner to keep abreast of the Group's latest developments. All businesses transacted at the Board meetings are properly documented and recorded.

The Company provides directors with regular updates on changes to and developments of the Group's business, and on the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities to help them make informed decisions and discharge their duties and responsibilities as directors of the Company.

Mr. Wang Liang is the son of Ms. Qiao Yanfeng, the substantial shareholder of the Company. Ms. Qiao is deemed to be interested in 150,000,000 shares of the Company. Save as disclosed herein, there is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board.

During the year under review, all directors have participated in continuous professional development to develop and refresh their knowledge and skills as listed company directors. All directors have provided the Company with their records of the training they received for the year. A summary of the records of their training is as follows:

Name of directors	**Type of continuous professional development programmes**
Executive Directors	
Wang Liang *(Chairman)*	B
Du Dong	B
Lo Yuen Wa Peter	A and B
Non-executive Director	
Chen Hui	B
Independent Non-executive Directors	
Cheung Wing Ping	A and B
Ha Kee Choy Eugene	A and B
To Shing Chuen	A and B

Notes:

A attending face-to-face courses, seminars or conferences

B reading materials regarding updates on the Group's business and operation, finance, corporate governance or ethics and code of conduct

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to avoid power being concentrated with any one individual. The main responsibility of Chairman is to lead the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. The role of Chief Executive Officer has been performed collectively by all executive directors. The Board considers this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and the interest of the Shareholders of the Company as a whole.

NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has reviewed their independence based on such confirmation and considers all of them remaining independent.

All non-executive directors are appointed for a specific term of not more than three years and are subject to retirement by rotation and re-election at the annual general meeting at least once every three years pursuant to the Company's Bye-laws.

BOARD COMMITTEES

The Board has set up the Executive Committee which comprises all executive directors on the Board. Under its terms of reference, the Executive Committee is responsible for overseeing the management and daily operations of the Group and any other matters delegated by the Board. In addition to the Executive Committee, the Board has set up the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board does not have a Corporate Governance Committee and its functions would be carried out by the Board as a whole.

All committees of the Board have specific terms of reference clearly defining their respective powers and responsibilities. All committees are required by their terms of reference to report to the Board in relation to their decisions or recommendations. Through participating in the Company's board meetings and committees meetings, attending general meetings, and participating in continuous professional development, all directors are able to make contribution required from them to the Board and to the development of the Company.

AUDIT COMMITTEE

The Audit Committee currently comprised three independent non-executive directors, Mr. Cheung Wing Ping, Mr. Ha Kee Choy Eugene and Mr. To Shing Chuen and two of whom has the appropriate professional qualifications, or accounting or related financial management expertise. It is chaired by Mr. Ha Kee Choy Eugene. The principal responsibilities of the Audit Committee are to review the relationship with the auditors of the Company; review the financial information of the Group and oversee the Group's financial reporting system, internal control procedures and risk management system. The major roles and functions of the Audit Committee are set out in the terms of reference which include duties specified in the CG Code and are posted on the Company's website and on the Stock Exchange's website.

The Audit Committee held 2 meetings during the year ended 31 December 2019. Details of the attendance of the committee members are as follows:

Committee Members	Attendance
Mr. Ha Kee Choy Eugene	2/2
Mr. Cheung Wing Ping	2/2
Mr. To Shing Chuen	2/2

The major work performed by the Audit Committee during the year ended 31 December 2019 included, amongst other things, the following:

- reviewing the annual results of the Group for the financial year ended 31 December 2019 with the conclusion that the preparations of such results have been complied with the applicable accounting standards;
- reviewing the interim results of the Group for the six months ended 30 June 2019; and
- reviewing the effectiveness of the Group's internal control systems and procedures and risk management system.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprised two executive directors, Mr. Wang Liang and Mr. Du Dong, and three independent non-executive directors, Mr. Cheung Wing Ping, Mr. Ha Kee Choy Eugene and Mr. To Shing Chuen. It is chaired by Mr. To Shing Chuen. The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and members of the senior management of the Company and to determine the specific remuneration packages of all executive Directors and members of the senior management of the Company. The major roles and functions of the Remuneration Committee are set out in the terms of reference which include duties specified in the CG Code and are published on the Company's website and on the Stock Exchange's website.

The Remuneration Policy for executive directors of the Company is determined with reference to the Group's operating results, duties and level of responsibility of the executive directors and the prevailing market conditions which are reviewed annually in order to provide remuneration and compensation packages competitive to attract, retain and motivate high quality executives to serve the Group. The fee for non-executive directors is determined with reference to each of their duties and level of responsibility with the Company and is reviewed on an annual basis.

During 2019, the Remuneration Committee has assessed the performance of the executive directors, reviewed and discussed, among other matters, the remuneration packages of existing directors, the remuneration of the non-executive directors, the existing share option scheme and the retirement benefit scheme. It has also reviewed the Remuneration Policy and its implementation. Being given the delegated responsibility, the Remuneration Committee has also determined the remuneration packages of the executive directors of the Company.

The Remuneration Committee held 2 meetings during the year ended 31 December 2019. Details of the attendance of the committee members are as follows:

Committee Members	Attendance
Mr. Wang Liang	2/2
Mr. Du Dong	2/2
Mr. Ha Kee Choy Eugene	2/2
Mr. Cheung Wing Ping	2/2
Mr. To Shing Chuen	2/2

The remuneration of the Directors, being the senior management of the Company, by band for the year ended 31 December 2019 is set out below:

Remuneration band	Number of persons
Not more than HK$1,000,000	3
HK$1,000,001–HK$2,000,000	4

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 9 and 10 to the financial statements in this annual report, respectively.

NOMINATION COMMITTEE

The Nomination Committee currently comprised two executive directors, Mr. Wang Liang and Mr. Du Dong, a non-executive director, Mr. Chen Hui, and three independent non-executive directors, Mr. Cheung Wing Ping, Mr. Ha Kee Choy Eugene and Mr. To Shing Chuen. It is chaired by Mr. Wang Liang. The major roles and functions of the Nomination Committee are set out in the terms of reference which include duties specified in the CG Code and are posted on the Company's website and on the Stock Exchange's website.

The Nomination Policy for directors is formulated with reference to the skills and experience of the Board appropriate for the requirements of the Group's business. The Nomination Committee will review the Board's structure, size and composition (including the skills, knowledge and experience) and diversity. It will assess the independence of independent non-executive directors. It will also make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and make recommendations on the appointment or re-appointment of directors and succession planning for directors, including the Chairman as appropriate. It is responsible for identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships.

The Nomination Committee held 1 meeting during the year ended 31 December 2019. Details of the attendance of the committee members are as follows:

Committee Members	Attendance
Mr. Wang Liang	1/1
Mr. Du Dong	1/1
Mr. Chen Hui	1/1
Mr. Ha Kee Choy Eugene	1/1
Mr. Cheung Wing Ping	1/1
Mr. To Shing Chuen	1/1

The Company has adopted a Board Diversity Policy setting out the approach to achieve a diverse Board. Taking into account factors including the size of the Board, its composition of executive and non-executive directors, and the Company's principal activities and needs, selection of candidates shall 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. All appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;
2. to review and monitor the training and continuous professional development of directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Corporate Governance Policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its Corporate Governance Policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

During the year, members of the Board have reviewed and discussed, among other things, the Company's policies and practices on corporate governance at board meetings. They have also reviewed and monitored the training and continuous professional development of directors, and the Company's policies and practices on compliance with legal and regulatory requirements as well as its disclosure in the Corporate Governance Report. The Board has reviewed the code of conduct applicable to employees and directors setting out the standards of behaviour that the Company expects from them and the guidelines on how they should handle different situations in business dealings with the Group.

INDEPENDENT AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's independent auditors, Moore Stephens CPA Limited amounted to a total of HK$1.7 million, of which HK$1.4 million was for audit services and HK$0.3 million was for non-audit services including tax and consultancy services.

COMPANY SECRETARY

The Company has changed it's Company Secretary on 18 April 2017 and she has undertaken not less than 15 hours of relevant professional training during 2019.

SHAREHOLDERS' RIGHTS

The following is a brief summary of certain rights of shareholders, which are subject to applicable laws and regulations, including without limitation, the Companies Act 1981 of Bermuda (as amended from time to time), the Listing Rules and the Company's Bye-laws.

1. Convening special general meeting

Members of the Company may, by a written requisition, require the directors of the Company to convene a special general meeting ("SGM") for the transaction of any business specified in such requisition. A valid requisition may be made by a member or members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which at that date carries the voting rights at general meetings of the Company. The requisition must state the purpose(s) of the requisitioned SGM, and must be signed by the requisitionist(s). The requisition may consist of several documents in like form each signed by one or more requisitionists, which must be deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. To ensure that it is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's principal place of business in Hong Kong at 12/F, Kwan Chart Tower, 6 Tonnochy Road, Wan Chai, Hong Kong, for the attention of the Board or the Company Secretary.

If the directors fail to proceed to convene an SGM within 21 days from the date of deposit of the requisition, the requisitionist(s) (or any of them representing more than one-half of their total voting rights) may himself/themselves convene an SGM, which must be held within 3 months of the date of deposit of the requisition. The SGM must be convened by the requisitionist(s) in the same manner as nearly as possible as that in which the SGM is to be convened by the directors. The requisitionist(s) is/are entitled to be repaid any reasonable expenses he/they incur(s) as a result of the failure of the directors duly to convene an SGM. These expenses will be payable by the Company and any sum so repaid shall be retained by the Company out of any sums due or to become due from the Company by way of fees or other remuneration to such defaulting directors in respect of their services.

2. Putting forward proposals at shareholders' meetings

Members of the Company may by a written requisition and at their expense (unless the Company otherwise resolves) require the Company to:

(a) give to members of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting of the Company; and/or

(b) circulate to members of the Company entitled to receive notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that general meeting.

A valid requisition may be made by either:

(a) any number of members of the Company representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition the right to vote at the meeting to which the requisition relates; or

(b) not less than 100 members of the Company.

The requisition signed by the requisitionists (or two or more copies which between them bear the signatures of all the requisitionists) must be deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. To ensure that it is received by the Company at the earliest opportunity, a copy of the signed requisition may also be deposited at the Company's principal place of business in Hong Kong at 12/F, Kwan Chart Tower, 6 Tonnochy Road, Wanchai, Hong Kong, for the attention of the Board or the Company Secretary and,

(a) in the case of a requisition requiring notice of a resolution to be moved at an annual general meeting, not less than 6 weeks before the annual general meeting; and

(b) in the case of any other requisition, not less than one week before the general meeting.

The requisitionists must deposit or tender with the requisition a sum which is reasonably sufficient to meet the Company's expenses in giving effect to the requisition.

3. Proposing a person for election as director

Shareholders may propose a person for election as director, the procedures for which are available on the Company's website in the section of "Corporate Governance" under the column of "Investor Relationship".

4. Sending enquiries to the Board

Shareholders may send any enquiries to the Board by mail, email or telephone to the Company Secretary, whose contact details are as follows:

Address:	12/F, Kwan Chart Tower, 6 Tonnochy Road, Wanchai, Hong Kong
Email:	chinatouyun@chinatouyun.com.hk
Telephone:	+852 2270 7200

INVESTOR RELATIONS

The Company has adopted a Shareholders Communication Policy. The use and effectiveness of such policy are monitored and reviewed regularly by the Board. The Company recognises the importance of shareholders' privacy and therefore will not disclose shareholders' information without their consent, unless required by law to do so. To achieve equal access to information on the Company's latest major developments, measures have been taken to ensure all necessary information and appropriate updates are made available to investors in a timely manner through the Company's website in the section of "Corporate Governance" under the column of "Investor Relationship". In addition to financial reports, all announcements and circulars of the Company including results announcements, notices of general meetings and associated explanatory documents released by the Company to the Stock Exchange are posted on the Company's website. Shareholders should direct their questions about their shareholdings to the Company's share registrars. For enquiries about the information of the Company, shareholders may contact the Company Secretary, whose contact details are set out under the heading of "Sending enquiries to the Board" above. Shareholders are encouraged to participate in the Company's general meetings where members of the Board will be available to answer their questions.

The Company's constitutional documents are made available on the Company's website in the section of "Corporate Governance" under the column of "Investor Relationship" and on the Stock Exchange's website. There was no significant change in them during the year under review.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives and maintaining appropriate and effective risk management and internal control systems. The Company has maintained an internal audit function which forms part of the permanent establishment of the Group and is internally resourced and staffed by qualified accounting personnel with suitable experience.

The internal audit function monitors the adequacy and effectiveness of the risk management and internal control systems established within the Company and its subsidiaries for safeguarding assets against unauthorized use, for maintaining proper accounting records, and for ensuring the reliability of financial information. Functional reporting and financial reporting procedures appropriate to the business of the Company's subsidiaries are established for application within the Group. These procedures are designed to enable timely and reliable functional and financial reporting by subsidiaries of the Group and to provide reasonable assurance against material misstatement, errors, losses or fraud. The work of the internal audit function is generally focused on identifying, monitoring and reporting on major risks faced by the Group, including those related to business operations, compliance with laws and regulations and financial reporting. The review of risk management and internal control systems is conducted on an ongoing basis by the internal audit function. The Board is responsible for ensuring that recommendations made by the internal audit function are properly implemented.

The Board recognizes that the Group's internal control system plays a key role in both the management of risks and the assurance of continued compliance with laws and regulations by the Group. The Audit Committee has kept under review the Group's risk management and internal control systems. During the year, the Company has also engaged a professional party to conduct a review of internal controls of business cycles of its packaging products business and QR code business. The review covers material controls, including financial, operational and compliance controls and risk management functions of the Group. No material internal control defect was noted in the review. Based on its review, the Audit Committee will advise the Board on the adequacy of the Group's risk management and internal control systems, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board considers that the Group has complied with the provisions on risk management and internal controls as stipulated in the CG Code. The Board is satisfied that the Group's risk management and internal control systems including financial, operational and compliance controls and risk management functions as appropriate to the Group have been put in place.

RISKS AND UNCERTAINTIES

The Group is generally operating in an ever-changing business and economic environment. Both QR codes business and packaging products manufacturing business are affected by consumer markets which are volatile and fragile combined with rising labour costs in Mainland China. Volatility in the securities market may also affect the Company's shares investments, resulting in unrealised and realised loss. Market risk for changes in interest rates will affect loans receivable and interest-bearing borrowing. In addition to market risks, the Company is also subject to foreign currency risk, credit risk, liquidity risk and capital risk in the normal course of the Group's business. Particulars of financial risk management of the Company are set out in note 41 to the financial statements.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group continues to commit to comply with the relevant laws and regulations such as the Companies Act 1981 of Bermuda, Hong Kong Companies Ordinance Cap 622, Listing Rules, and laws and regulations implemented by relevant jurisdictions. The Company believes the existing laws and regulations do not have any significant effect on the Group's activities during the year ended 31 December 2019.

ENVIRONMENTAL POLICIES

The Group has developed environmental policies for operating safely and reducing our environmental footprint. Ongoing focus on the health, safety and wellbeing of its employees is the Group's commitment to sustainable future. The Group has fully supported employees who observe the environmental policies and take care of environment.

The Group constantly improves the awareness of employees with respect of energy saving, and reducing resources consumption and recycling of scrap materials. To reduce electricity consumption, lighting equipment are switched off and replaced with energy efficient ones. Staff is reminded that documents are not printed unless it is necessary, printed papers are reused and two-sided printing is encouraged. Scrap materials are undertaken to recycle in use of production. Sewage collection and treatment has been established in the factory to control water pollution.

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group recognizes that our employees, customers and business associates are key elements for our commitment to a resilient and sustainable business. The Group endeavours to provide a safe workplace, where employees are treated with respect and have the potential to grow in their careers. The Group also endeavours to provide consistently high quality and large range of products and services to customers delivered in quick response. With the building of partnership atmosphere, the Group has developed a long- term relationship of loyalty and trust with suppliers and professional bodies, leading to improved products and work together to share best practices.

INSIDE INFORMATION

The Company has adopted a Disclosure of Inside Information Policy. It sets out a framework for the release and control of inside information to ensure that the Company is able to meet its legal and regulatory obligations and requirements as a listed corporation. The Board is generally responsible for ensuring that the Group complies with its disclosure obligations regarding inside information and has established a disclosure group comprising certain directors and management to assist it in determining whether any particular information is inside information and overseeing and coordinating disclosure of inside information of the Group. Inside information should be disclosed by way of an announcement in accordance with the requirements of the Securities and Futures Ordinance (the "SFO") and the Listing Rules. Before relevant information is fully disclosed to the public, the disclosure group will help the Board to ensure that such information is kept strictly confidential.

DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The Board acknowledges that it is responsible for the preparation of financial statements of the Group and for ensuring that financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of financial statements of the Group. Except for disclosed in note 1(b) to the financial statement, the directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any other material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The independent auditors opinion is not modified in respect of these matters and the statement of the independent auditors of the Company, Moore Stephens CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 58 to 62.

REPORTING GUIDE AND SCOPE

This is the fourth Environmental, Social and Governance Report published by China Touyun Tech Group Limited, which is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules on the Main Board of The Stock Exchange of Hong Kong Limited, and based on the actual situation of the Company. This report discloses the environmental and social performance of the Group during the period from 1 January 2019 to 31 December 2019. Unless otherwise stated, the content of the report will include packaging products business in Zhongshan and QR code business in Shanghai and Beijing.

This report is based on the reporting principles of "Materiality", "Quantitative", "Balance" and "Consistency". Disclosure includes the impacts of the Company's business, including both positive and negative impacts. Quantitative information is presented on a year-on-year basis after verification and analysis for consistent comparison and review by stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MANAGEMENT APPROACH

The Group is principally engaged in packaging products business in Zhongshan and QR code business in Shanghai and Beijing. Based on the materiality of the issue, the Board prioritizes the issues based on the materiality of the impact on the environment, economy and society. In order to gradually integrate sustainable development into the Group's business strategy and daily operation, various functional departments, including the Human Resources and Administration Department and the Procurement Department, take the lead in relevant matters and strive to gradually improve the environmental, social and governance performance.

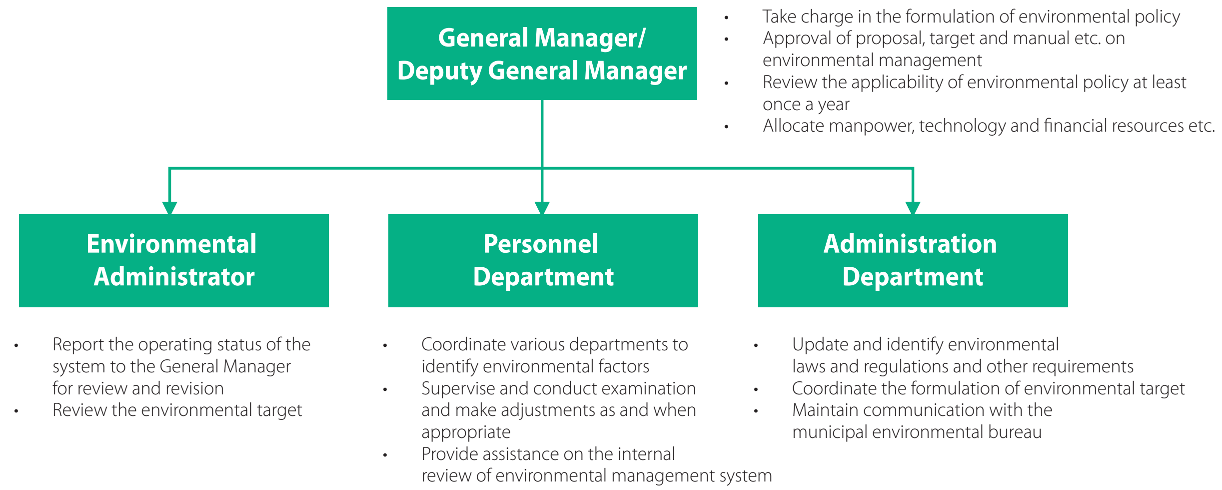
Stakeholder Engagement

The Group maintains regular communication with different stakeholders, including customers, employees, suppliers, investors and the community. Set out below is a list of stakeholders and their concerns, communication channels and the corresponding actions taken by the Group during the year.

Stakeholders	Issues of concern	Communication Channels	Actions taken by the Group in 2019
Customers	• Quality Assurance • Customer Satisfaction • Data Protection • Integrity	• Customer satisfaction survey • Company website • Press releases	• Improving "One-stop marketing solution" • Average customer satisfaction reached 92%, higher than business quality standards • Accredited with international certification
Employees	• Health and Safety • Training and Development • Welfare	• Training • Medical examination • Internal communication	• Provision of occupational and safety training • Fair and equal treatment of every employee
Environmental	• Environmental Protection • Compliance	• Encouraging staff to save electricity • Regularly review the updated laws and regulations of the Ministry of Environmental Protection	• Established an environmental management structure • Emissions in compliance with national standards • Implemented energy conservation and emission reduction measures
Suppliers	• Procurement of raw materials • Integrity	• Regular examination	• Formulated social responsibility guidelines for suppliers • Conducted supplier assessment
Shareholders/ Investors	• Company Operation • Corporate Governance • Risk Management • Intellectual Property Protection	• Annual general meeting • Financial report • ESG report	• Owned 35 patents • Established internal policies to protect intellectual property rights • Awarded bonuses to the inventors
Community	• Community Investment	• Volunteers • Caring for community activities • Voluntary donation	• Donated RMB5,000 to Zhongshan Red Cross

ENVIRONMENTAL MANAGEMENT

The Group is committed to operating its business activities in a sustainable manner, properly managing the emission of "three wastes" and conserving resources. In order to implement the Group's environmental policy, our Zhongshan Plant formulated an Environmental Management Manual during the year to specify the responsibilities of employees at all levels, and carried out the environmental pollution prevention and energy conservation work.



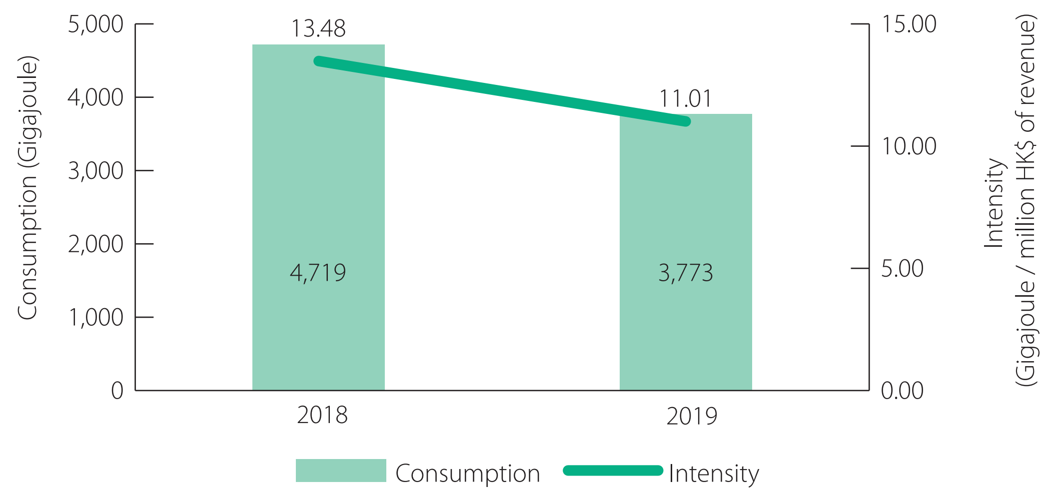
Environmental Management Structure of Zhongshan Plant

Resources Consumption

Energy

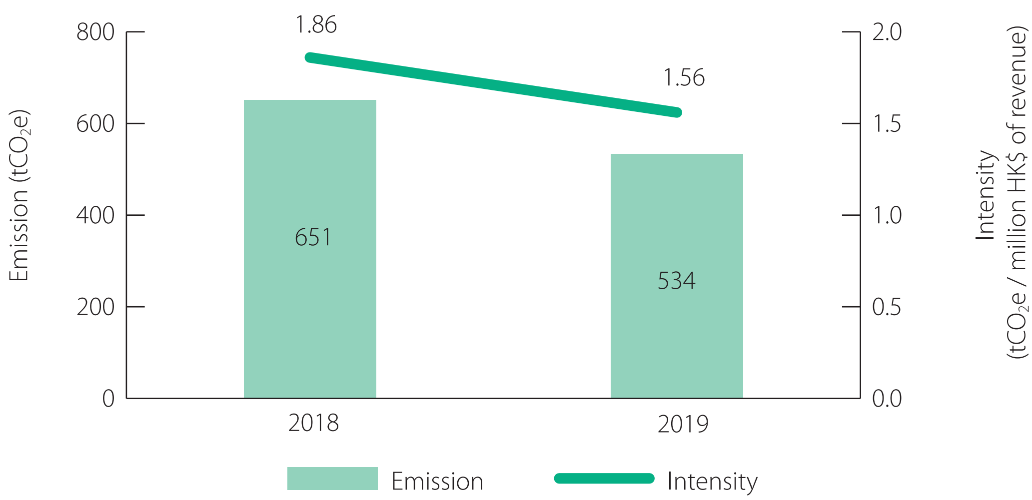
The Group is committed to continuously monitoring the energy consumption to improve its efficiency. Our operations mainly consume electricity, gasoline and diesel for vehicle transportation, office and factory operation. During the year, the Group's total energy consumption was 3,773 GJ, representing a decrease of approximately 25% over last year, and the energy consumption intensity was 11.01 GJ/million HK$ of revenue. The Group advocates energy conservation in various aspects to reduce energy consumption, such as encouraging employees to turn off energy switches that are not in use, carrying out regular cleaning and maintenance on equipment, and adopting LED lights.

Total Energy Consumption and Intensity



The Group continues to measure carbon emissions in our operations to implement effective measures to mitigate climate change. During the year, the Group emitted approximately 534 tonnes of carbon dioxide equivalent ("tCO_2e"), representing a decrease of approximately 22% as compared to last year, with an emission intensity of 1.56 tonnes of tCO_2e/million HK$ of revenue. The fuel consumption of the Group's vehicles is the main scope 1 (direct emission), with an emission of approximately 70.6 tCO_2e. Scope 2 (indirect emissions) is electricity consumption, with emissions of approximately 463.4 tCO_2e.

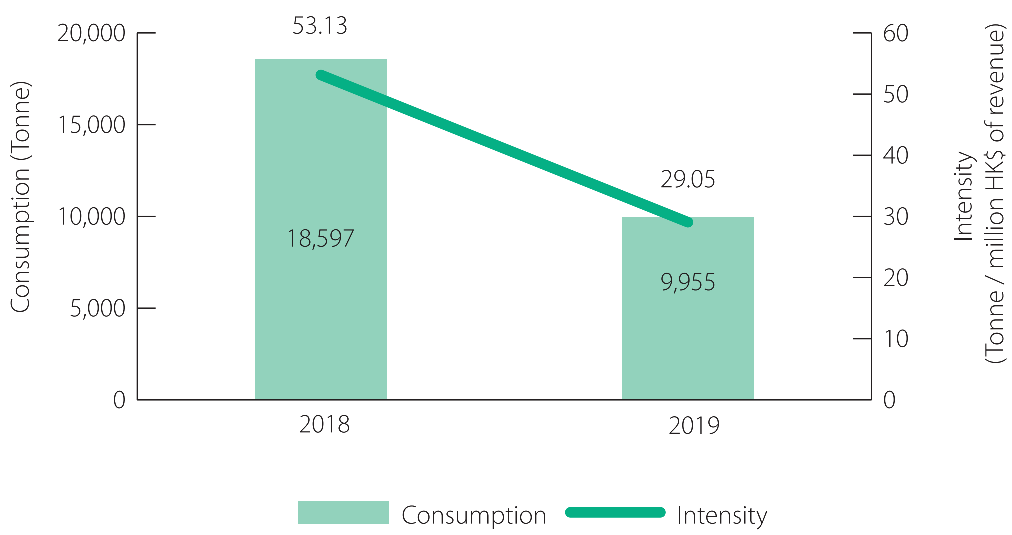
Greenhouse Gas Emission and Intensity



Water Resources

The Group's water consumption is divided into domestic water and industrial water. Industrial water is mainly used in the factory production process of our packaging products business in Zhongshan, such as the cooling water used in processing beer box forming and plastic absorption process. During the year, the Group consumed about 9,955 tonnes of water resources, and the water consumption intensity was 29.05 tonnes/million HK$ of revenue. Due to the contraction of the Group's production scale, the consumption of water resources decreased by 8,642 tonnes as compared with last year. In addition, the Group actively strengthens the management of water resources, such as putting up water-saving labels in front of the taps, setting quotas for various types of water use, and implementing a reward-penalty system for saving or overuse of water, so as to enhance our employees' awareness of water conservation. The Group has also strengthened the inspection of water equipment in Zhongshan Plant and included it in the shift handover record. If water leakage is found, it will be repaired as soon as possible to reduce waste.

Water consumption and intensity



Packaging materials

Packaging materials such as plastic bags and carton boxes are the main materials consumed by the Group. During the year, the Group consumed approximately 78.64 tonnes of plastic bags and 315.7 tonnes of carton boxes. In response to environmental protection, the Group has taken measures to reduce material consumption, such as re-using plastic transfer boxes and adopting more online communication means to reduce paper consumption. We also change the design of our products to enhance environmental friendliness and reduce the use of packaging materials. As a result, the Group's carton consumption was significantly reduced by 39% as compared to last year.

Packaging materials (Tonne)			
	2018	**2019**	**Change (%)**
Plastic bags	77.35	78.64	1.67%
Carton boxes	514.0	315.7	–38.58%

Treatment of Three Wastes

As a responsible enterprise, the Group strictly complies with applicable laws and regulations. During the year, the Group issued the Environmental Operation Control Procedures to ensure that all pollutant emissions and waste disposal meet regulatory standards. The Legal Department is responsible for tracking the changes in relevant national laws and regulations, and the Administrative and Human Resources Department will revise and update the Company's management system as necessary.

During the year, the Group was not aware of any non-compliance with laws and regulations[1] that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Exhaust Gas Emissions

The Group's Zhongshan Plant holds the Pollutant Emission of Guangdong Province and strictly complies with its rules and standards on exhaust gas emissions. In order to reduce the emission of exhaust gas and its impact on the surrounding environment, the Group has set up highly efficient exhaust gas treatment facilities with a capacity of 20,000 standard cubic meters per hour. The Group's exhaust gas treatment facilities collect exhaust gas centrally and discharge it at high altitude after UV photolysis and activated carbon adsorption, and the exhaust gas emission is maintained at lower than 48 million cubic meters per year. Last year, the Group conducted five tests on the exhaust gas emissions of the Zhongshan Plant, and the emission concentration level and rate were within standard.

In addition to factory production process, the Group's air emissions come from the operation of gasoline vehicles, with approximately 0.39 kg of sulfur oxides (SOx), 12.59 kg of nitrogen oxides (NOx) and 0.93 kg of suspended particulate matter (PM) emitted during the year. Emissions decreased significantly as compared to last year as the Group had stopped using medium and heavy trucks during the year.

Air emissions (kg)			
	2018	**2019**	**Change (%)**
Sulfur oxides (SOx)	0.58	0.39	–32.7%
Nitrogen oxides (NOx)	150	12.6	–91.6%
Suspended particulate matter (PM)	14.6	0.93	–1,475%

1 For the relevant laws and regulations, please refer to the section "Laws and Regulations".

Sewage Treatment

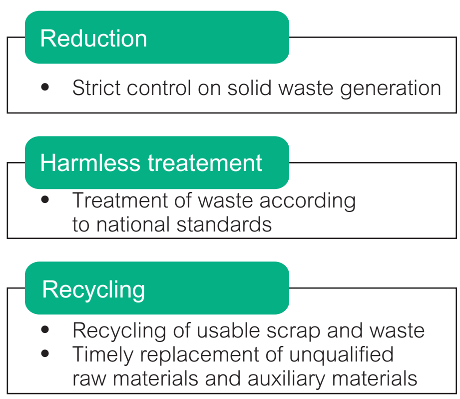
The Group's sewage discharge includes domestic sewage and industrial sewage, which is discharged in strict compliance with national regulations. The Group's Zhongshan Plant implements a comprehensive sewage management procedure, which is jointly developed by the Administration Department, the Electrical Engineering Maintenance Department and various departments, aiming to make better use of water resources, prevent water pollution and protect the environment.

In July last year, the Group inspected the acid and alkaline value, suspended matters and chemical oxygen demand in the domestic sewage of Zhongshan Plant, all of which complied with the required standards. Meanwhile, in order to improve the recycling rate of sewage, domestic sewage will be discharged into the sewage pipe network only after going through the septic tank, while rainwater will be discharged into the rainwater pipe network.

In terms of industrial sewage, the Group endeavors to ensure that the industrial sewage discharged meets the incoming water quality standards of the sewage treatment facilities. If industrial sewage is found to be below standard, it will be treated separately or will be discharged into the sewage treatment facilities after proper pre-treatment, so as to prevent the normal operation of the facilities.

Waste Disposal

To ensure compliance with environmental compliance work, the Company's Legal Department in Shanghai tracks changes in relevant national laws and regulations, and the Administrative Personnel Department revises and updates the Company's management system as required. During the year, the Group recycled approximately 69.4 tonnes of general waste and disposed approximately 7.5 tonnes of general waste in total, with an intensity of 0.02 tonnes/million HK$ of revenue, and transferred 4.4 tonnes of hazardous waste (e.g. waste oil) to qualified recyclers.



To reduce wastage, the Group strives to properly manage waste disposal. General waste is collected separately and clearly labelled and stored in the company's designated storage location, while recyclable waste is delivered to the recycling center for recycling.

Environmental Emergency Management

The Zhongshan Plant has set up an Environmental Emergency Leadership Group to deal with environmental emergencies, ensuring the safety of employees and the environment.

Prevention

- Establishment of risk prevention system for environmental emergencies
- Timely control or elimination of potential hazards

Environmental Emergencies

- A team will organize on-site command and rescue, investigation and monitoring of the surrounding areas
- Transfer, seal or destroy pollutants leftover in a timely manner
- Control the source of pollution, disinfect contaminated sites and contaminated items, sites and environments, and restore production order as soon as possible

Confirmation of Environmental Safety

- Conduct post-assessment on environmental safety in a timely manner
- After the accident, the cause shall be identified in a prompt manner, and lessons shall also be drawn from the accident

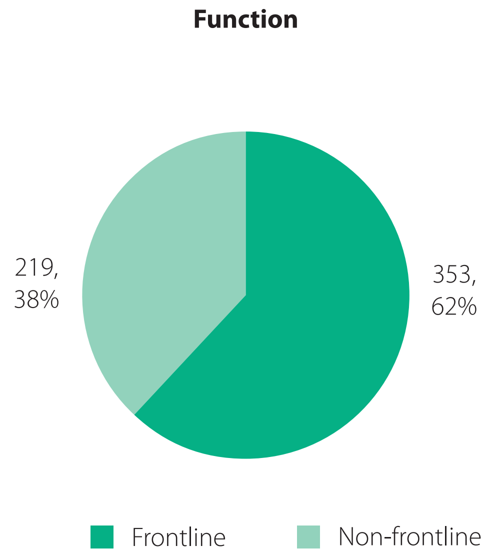
Environmental Emergency Plan

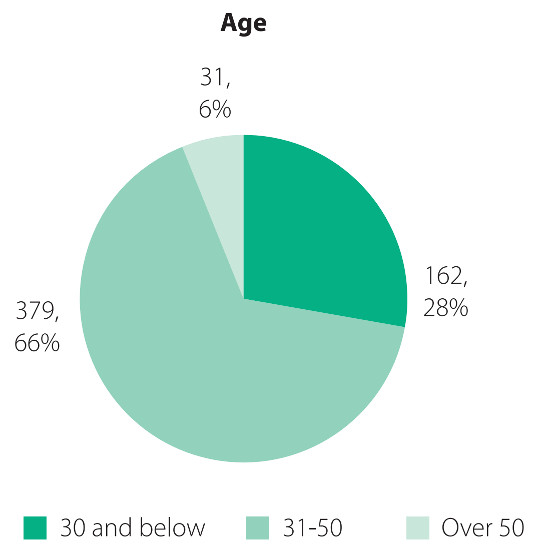
PEOPLE-ORIENTED

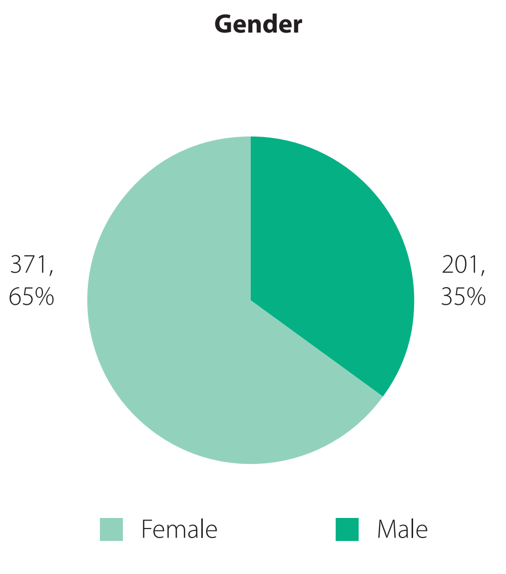
The Group regards employees as important assets and provides them with a safe and healthy working environment, enabling them to reach their potential and grow with the Group through training.

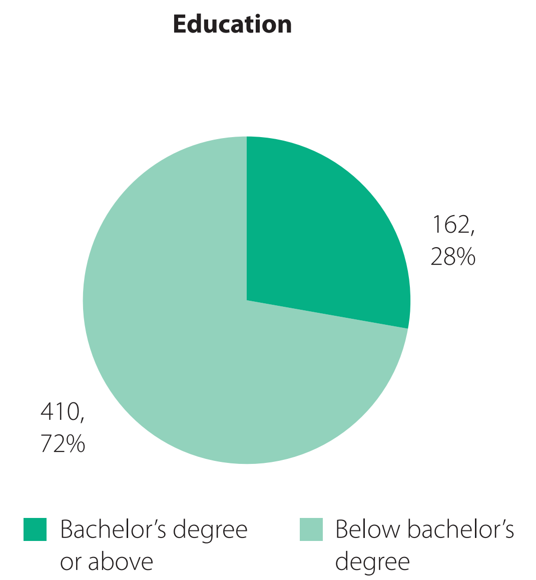
Employee Composition

As at the end of 2019, the Group employed a total of 572 full-time employees (2018: 955), with 405 working in Zhongshan, 108 working in Shanghai and 59 working in Beijing. Frontline and non-frontline employees each accounted for 62% and 38% respectively. In terms of age distribution, approximately 66% of the employees were aged 31 to 50. In addition, the ratio of male to female employees is 35:65. Employees with a bachelor degree accounted for 28% of the total workforce.

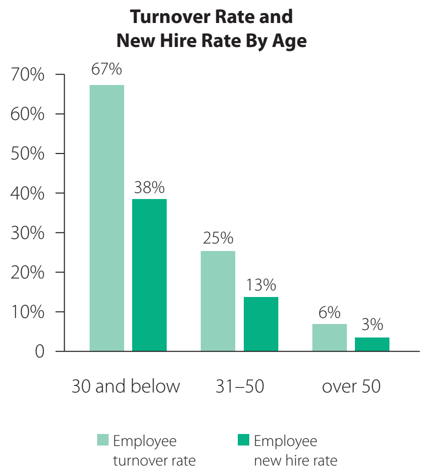


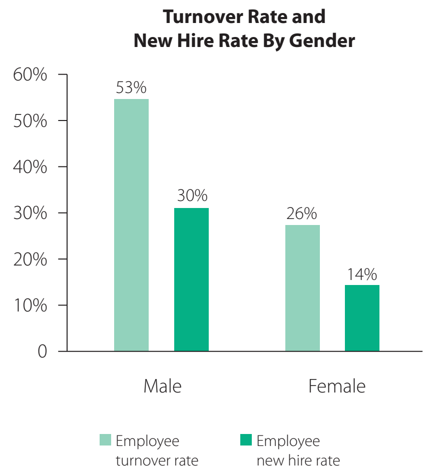






During the year, the total turnover rate of the Group's employee was 36% and the total new hire rate was approximately 20%. The following charts illustrate the turnover rate and new hire rate by age and gender:





Health and Safety

The Group is committed to maintaining the occupational health and safety of its employees and has been in strict compliance with relevant laws and regulations. The Personnel Department and Legal Department regularly track changes in laws and regulations, and the Personnel Department will timely revise the internal management system to reflect the latest requirements.

During the year, there were 2 cases of work-related injuries and 6 lost days due to work-related injuries (2018: 38 days). The Safety Department in Zhongshan is responsible for implementing safety measures and investigating safety accidents, while the Occupational Health Department establishes a comprehensive set of health records for employees to protect their occupational safety. In addition, the Group arranges induction and annual physical examination for employees, and requires them to sign the Health Statement to understand their physical conditions and reduce the risk of occupational diseases. To reduce the risk of work-related accidents, the Group actively arranges safety training. During the year, there were a total of 506 person-times participated in 709 hours of occupational safety and health training. The Zhongshan Plant regularly conducts safety drills and personnel training, and inspects emergency equipment and fire facilities.

During the year, the Group was not aware of any non-compliance with laws and regulations[2] that have a significant impact on the Group in terms of providing a safe working environment and protecting employees from occupational hazards.

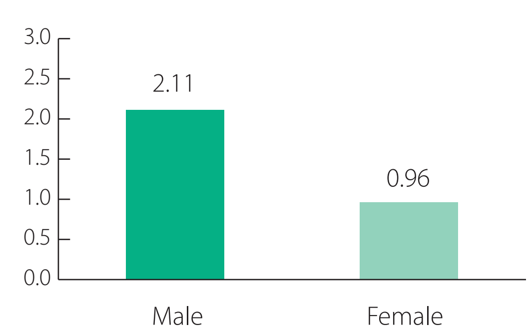
[2] For the relevant laws and regulations, please refer to the section "Laws and Regulations".

Development and Training

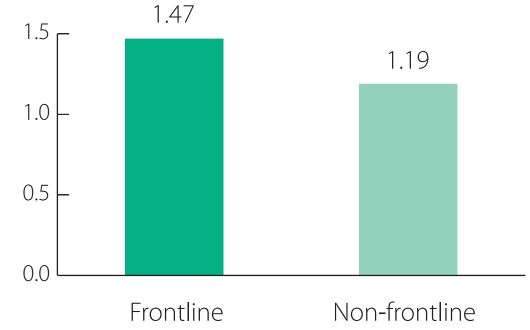
The Group actively nurtures talents and encourages employees to enhance their own competitiveness to cope with the development of the Group. In addition to providing induction and on-the-job training for new employees, all employees also receive training on company procedures and soft skills to enhance work efficiency. We hold specific on-the-job training for employees of different positions to familiarize them with the relevant work procedures.

We provide contract management and product training to our sales, pre-sales and project managers based on their job nature. We also provide a two-hour basic financial training to our project managers to ensure that they are equipped with the skills required for their work. During the year, the average training hours and percentage of employees trained by gender and function were as follows:

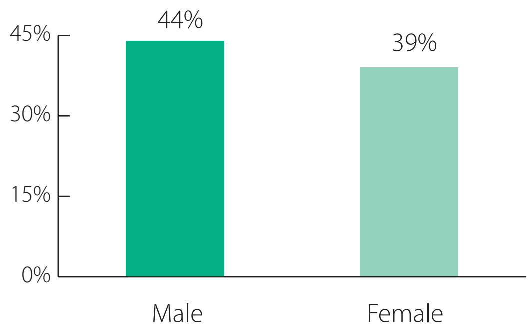
Average training hours of employees by gender (hour)



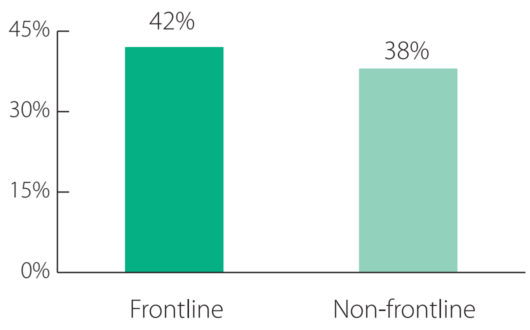
Average training hours of employees by function (hour)



Employee trained by gender (%)



Employee trained by function (%)



Employee Rights

The Company's policies on remuneration and dismissal, recruitment and promotion, working hours, holidays, anti-discrimination, prevention of child labour and forced labour, as well as other benefits and welfare are detailed in the staff code of conducts to protect employees' rights and ensure the Group's operation is in compliance with laws and regulations.

The Group strictly prohibits the employment of child labour and forced labour. Employees are required to verify their identity cards before joining the Group and we also prohibit the employment of child labour under the age of 16. In order to protect their rights, labour contracts can only be made on the basis of mutual agreement. In addition, we strictly enforce the system of clocking attendance. If overtime work is required during the production process, employees can voluntarily participate if they are in good physical condition.

In order to maintain a fair and just working environment, we have established a complete appeal and complaint mechanism where workers' representatives and the Group's management handle employees' unreasonable treatment directly. Every complaint will be responded accordingly to protect employees' rights and interests. During the quarterly staff meeting, employees reported damages of the lights in toilets and lounge, which have been handled in a timely manner and the renovation has been completed.

In terms of employee welfare, we pay attention to their mental health. The Group provides each employee with a monthly allowance of RMB100, which can be used for snacks, physical examination and team building. During the year, we organized activities such as outdoor training in Chongming District, Shanghai and Chinese New Year dinner for our employees to relieve their pressure and strengthen their cohesion.

The Group strictly complies with the labour laws and regulations of the places where it operates. During the year, the Group was not aware of any non-compliance with laws and regulations[3] that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, holidays, equal opportunity, anti-discrimination, prevention of child and forced labour and other benefits and welfare, nor was there any material penalty imposed due to violation of labour-related laws.

[3] For the relevant laws and regulations, please refer to the section "Laws and Regulations".

OPERATING PRACTICES

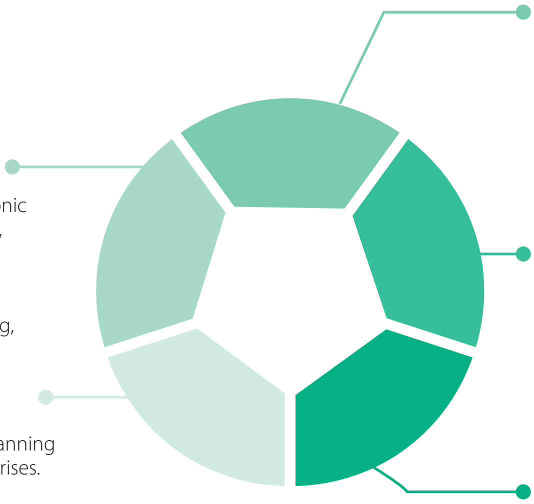
The Group is committed to providing customers with high-quality and stable products and services. By obtaining more international certifications, we strive to improve operational management details and enhance customer satisfaction.

Customer First

Customers' opinions are the driving force for the Group's progress. In order to fully collect customers' opinions, our packaging products business in Zhongshan has established a Customer Complaint Procedure. Upon receipt of complaint from customer, the relevant department will analyze the reasons and formulate and implement corresponding and preventive measures to prevent the recurrence of similar incidents.

The QR code business in Shanghai and Beijing has set up the Customer Satisfaction Measurement Procedure and formulated the customer satisfaction index assessment evaluation indicators and questionnaires, and distributes questionnaires and analysis results every year. When customer satisfaction level is close to or below the standard, the relevant department will identify the main cause and carry out improvement work for abnormal situations. The QR code business in Shanghai and Beijing reported an average total customer satisfaction rate of 92% in 2019, exceeding the business quality target.

The Group continues to improve the one-stop marketing solutions of QR code business to provide more convenient and personalized services for enterprises.



One-stop marketing solutions

Supplier Management

The Group attaches great importance to the quality of raw materials and procurement process. We select suppliers for packaging products and QR code business according to strict standards and conducts regular assessments to ensure the quality of raw materials, laying a good foundation for high-quality products. During the year, the Group had a total of 177 suppliers, of which 151 were located in Mainland China and 25 were located in Hong Kong, accounting for 99% of the total number of suppliers.

The packaging products business has established social responsibility guidelines for suppliers to clarify the Group's expectations on suppliers' environmental protection and social responsibility, such as prohibition of child labour and equal opportunities for employees of different genders, races and religions. They are also required to properly retain and, if necessary, provide documents such as environmental impact reports, pollutant discharge registration forms and records on safety production education and training for reference.

	Packaging Products Business	QR Code Business
Selection Criteria	• Procurement Policies • Standards for Selection of Suppliers	• Supplier and Procurement Control Procedures • Selection Criteria for Hardware and Non-standard Suppliers
Supplier Assessment	• Reminders for suppliers who failed to meet the standard during preliminary examination • Revoke the qualification of suppliers who failed to make improvements	• Assess the performance of suppliers based on the Supplier Performance Assessment Form • The Procurement Responsibility Department will handle suppliers with serious quality issues according to the requirements stated in the Corrective and Preventive Measures Control Procedures

Quality Assurance

The Group understands that product quality is the key to maintain long-term development with customers. Our production process has obtained international certifications, including ISO9001: 2015 Quality Management System and CMMI3[4] Certification. The general manager and deputy managers formulate and implement the overall quality policy and quality target of the plant annually, and conduct regular sampling of semi-finished products and finished products to ensure that the products meet the quality requirements.

The QR code business has formulated internal policies such as Non-Conforming Product Control Procedures and Corrective and Preventive Measures Control Procedures to handle non-compliant products. After the inspectors label and isolate the unqualified software products, relevant forms will be filled and submitted to the review personnel approved by the general manager for reworking, retirement, recovery to suppliers for correction. The Legal and Internal Control Department reviews the effectiveness of the relevant handling measures and revises the internal policies to prevent the occurrence of similar incidents.

During the year, the Group was not aware of any violations of relevant laws and regulations that have a significant impact on the Group relating to health and safety, labelling and privacy matters relating to products and services provided and methods of redress. Our business does not involve advertising matters and therefore these aspects do not have a significant impact on our operations.

Intellectual Property and Data Protection

In strict compliance with national laws and regulations on intellectual property rights[5], the Group has established internal policies such as the Intellectual Property Management System, the Customer Property Management Procedures and Source Code Management Regulations to regulate the use of intellectual property rights owned by the Group. During the year, the QR codes business in Shanghai and Beijing possessed 35 patents, and bonuses will be awarded to the inventors who successfully applied for the patents.

Apart from protecting internal intellectual property rights, the Group also attaches great importance to customers' privacy. Employees of the Shanghai Plant are required to sign a confidentiality agreement and comply with the Administrative Provisions on Trade Secrets upon joining, which stipulates that employees must keep the relevant information confidential before it is legally disclosed, and should return all documents containing customers' trade secrets one month before they leave their positions. Violators will be subject to disciplinary actions and subject to civil, administrative and criminal liabilities. The Shanghai Plant has been accredited with ISO27001: 2013 Information Security Certification to ensure proper data protection.

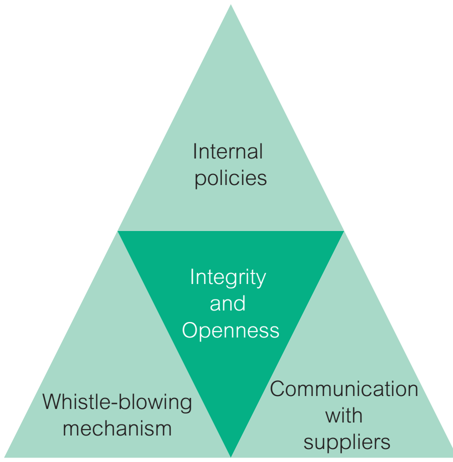
4 CMMI3 refers to Capability Maturity Model Integration Level 3, a quality management and quality assurance standard developed by the American Software Engineering Institute for software products.

5 For the relevant laws and regulations, please refer to the section "Laws and Regulations".

Integrity and Openness

In order to maintain a good atmosphere of non-corruption and integrity within the Group, all employees, including directors and the management, are required to comply with the Code of Conduct on Employee Integrity and the Code of Conduct for Directors and Employees, and are strictly prohibited from illegal behaviors such as accepting bribes, compensating debts and returning commissions. They are also required to sign the Policy Concerned by Employees for Inappropriate Acts and the Legitimate Compliance Formulation and Employees' Commitment Letter, and receive regular anti-corruption training to enhance employees' awareness of integrity.

In addition to internal employees, the suppliers shall acknowledge the Group's stance on anti-corruption through the Code of Conduct on Employee Integrity, and shall collaborate with us to combat corruption to ensure that the Group's employees, customers, consumers, suppliers and other business cooperation are based on the principles of honesty and fairness.



Employees can report information about violation of internal anti-corruption policies to the Legal and Internal Control Department through the reporting hotline or e-mail. Relevant employees will be subject to disciplinary action or dismissal if the allegation is found to be true. During the year, the Group was not aware of any non-compliance with laws and regulations[6] that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering, nor was it involved in any cases of corruption during the year.

Contribution to Society

The Group encourages employees to actively participate in charitable activities to contribute to the society. During the year, our employees in Zhongshan took part in the charity walk in Sanjiao Town, Zhongshan for the fourth consecutive year, with a total of 20 employees volunteered. The Group donated RMB5,000 to the organizer, the Zhongshan Red Cross, to help the people in need such as the disabled in towns and build a new outpatient building of Sanjiao Hospital.

6 For the relevant laws and regulations, please refer to the section "Laws and Regulations".

LAWS AND REGULATIONS

The Group has established and implemented internal policies relating to environmental, social and governance to ensure our business operations are in compliance with applicable laws and regulations. The following table sets forth the relevant laws and regulations:

Aspects	Applicable laws and regulations	Corresponding Section
Resources Consumption	• Energy Conservation Law of the People's Public of China • Cleaner Production Promotion Law of the People's Republic of China	Resources Consumption
Emissions	• Environmental Protection Law of the People's Republic of China • Atmospheric Pollution Prevention and Control Law of the People's Republic of China • Emission Limits of Air Pollutants • Emission Limits of Water Pollutants	Treatment of Three Wastes
Employment and Labor Standards	• Labor Law of the People's Republic of China • Labor Contract Law of the People's Republic of China • Labor Protection Law • Law of the People's Republic of China on the Protection of Minors • Law of the People's Republic of China on the Protection of Women's Rights and Interests	Employee Rights
Health and Safety	• Production Safety Law of the People's Republic of China • Law of People's Republic of China on Prevention and Control of Occupational Diseases	Health and Safety
Product Responsibility	• Patent Law of the People's Republic of China	Intellectual Property and Data Protection
Anti-corruption	• Criminal Law of the People's Republic of China • Anti-corruption and Anti-commercial Bribery Regulations	Integrity and Openness

DATA SUMMARY

		Unit	2019	2018
Environment	**Resources Consumption**			
	Electricity	kWh	813,116	961,226
	Gasoline	Liter	26,545	26,796
	Diesel	Liter	0	11,300
	Total energy intensity	Gigajoule/million HK$ of revenue	11.01	13.48
	Tap water	Tonne	9,955	18,597
	Water intensity	Tonne/million HK$ of revenue	29.05	53.13
	Greenhouse Gas			
	Total greenhouse gas emissions	tCO_2e	534.0	651.2
	Direct emissions (Scope I)	tCO_2e	70.6	101.1
	Indirect emissions (Scope II)	tCO_2e	463.4	550.1
	Emission intensity	tCO_2e/million HK$ of revenue	1.56	1.86
	Exhaust pollutants			
	Nitrogen oxides	kg	12.59	150
	Sulfur oxides	kg	0.39	0.58
	Suspended particulate matter	kg	0.93	14.6
	Waste			
	Hazardous waste	Tonne	4.4	0
	General waste (recycled)	Tonne	69.4	213.8
	General waste (disposed)	Tonne	7.5	2.6
	Intensity of general waste	Tonne/million HK$ of revenue	0.02	–
	Use of Packaging Materials			
	Plastic bag	Tonne	78.64	77.35
	Carton box	Tonne	316	514
	Intensity of packaging material	Tonne/million HK$ of revenue	1.15	–

		2019	2018
Employees	**Total number**	572	955
	Gender Distribution		
	Male	201	420
	Female	371	535
	Function		
	Frontline	353	497
	Non-frontline	219	458
	Age Distribution		
	≤30	162	452
	31–50	379	473
	> 50	31	30
	Geographical distribution		
	Zhongshan	405	512
	Shanghai	108	358
	Beijing	59	85
	Turnover — By Age		
	Turnover Number		
	≤30	108	186
	31–50	95	138
	> 50	2	5
	Turnover Rate		
	≤30	67%	41%
	31–50	25%	29%
	> 50	6%	17%

		2019	2018
Employees	**Turnover — By Gender**		
	Turnover Number		
	Male	107	206
	Female	98	123
	Turnover Rate		
	Male	53%	49%
	Female	26%	23%
	New Hire — By Age		
	New Hires		
	≤30	62	126
	31–50	51	75
	> 50	1	2
	New Hire Rate		
	≤30	38%	28%
	31–50	13%	16%
	> 50	3%	7%
	New Hire — By Gender		
	New Hires		
	Male	61	108
	Female	53	95
	New Hire Rate		
	Male	30%	26%
	Female	14%	18%

		Unit	2019	2018
Employees	**Employee Training Performance — By Gender**			
	Percentage of Employees Trained			
	Male		44%	–
	Female		39%	–
	Average Training Hours			
	Male		2.11	–
	Female		0.96	–
	Staff Training Performance — By Function			
	Percentage of Employees Trained			
	Frontline		42%	–
	Non-frontline		38%	–
	Average Training Hours			
	Frontline		1.47	–
	Non-frontline		1.19	–
	Occupational Safety and Health Training			
	Total person-times of training		506	696
	Total training hours		709	1,541
	Occupational Safety and Health Performance			
	Number of work-related accidents		2	5
	Number of work-related injuries		2	5
	Lost days due to work-related injuries		6	38
	Work-related fatalities		0	0
Community	**Participation and Public Welfare Input**			
	Charitable donations	Ten thousand RMB	0.5	0.5

INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Key Performance Indicators	HKEx ESG Reporting Guide Requirements		Section/Remarks
A. ENVIRONMENTAL			
Aspect A1: Emissions	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Treatment of Three Wastes, Resources Consumption
	KPI A1.1	Types of emissions and respective emissions data	Exhaust Gas Emissions, Sewage Treatment, Waste Disposal
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. based on per unit of production volume or per facility)	Energy
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. based on per unit of production volume or per facility)	Waste Disposal
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. based on per unit of production volume or per facility)	Waste Disposal
	KPI A1.5	Description of measures to mitigate emissions and results achieved	Treatment of Three Wastes
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Waste Disposal

Key Performance Indicators	HKEx ESG Reporting Guide Requirements		Section/Remarks
Aspect A2: Use of Resources	**General Disclosure** Policies on the efficient use of resources, including energy, water and other raw materials.		Resources Consumption
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in' 000s) and intensity (e.g. based on per unit of production volume or per facility)	Energy
	KPI A2.2	Water consumption in total and intensity (e.g. based on per unit of production volume or per facility)	Water Resources
	KPI A2.3	Description of energy use efficiency initiatives and results achieved	Energy, Water resources, Packaging Materials
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Water Resources
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Packaging Materials
Aspect A3: ENVIRONMENT AND Natural Resources	**General Disclosure** Policies on minimising the issuer's significant impact on the environment and natural resources.		Environmental Emergency Management
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Environmental Emergency Management

Key Performance Indicators	HKEx ESG Reporting Guide Requirements		Section/Remarks
B. SOCIAL			
Aspect B1: Employment	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Employee Rights
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Employee Composition
	KPI B1.2	Employee turnover rate by gender, age group and geographical region	Employee Composition
Aspect B2: Health and Safety	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Health and Safety
	KPI B2.1	Number and rate of work-related fatalities	Health and Safety
	KPI B2.2	Lost days due to work injury	Health and Safety
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and Safety
Aspect B3: Development and Training	**General Disclosure** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Development and Training
	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	Development and Training
	KPI B3.2	Average training hours completed per employee by gender and employee category	Development and Training

Key Performance Indicators	HKEx ESG Reporting Guide Requirements		Section/Remarks
Aspect B4: Labour Standards	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		Employee Rights
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Employee Rights
	KPI B4.2	Description of steps taken to eliminate such practices when discovered	Employee Rights
Aspect B5: Supply Chain Management	**General Disclosure** Policies on managing environmental and social risks of the supply chain.		Supplier Management
	KPI B5.1	Number of suppliers by geographical region	Supplier Management
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supplier Management

Key Performance Indicators	HKEx ESG Reporting Guide Requirements		Section/Remarks
Aspect B6: Product Responsibility	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Quality Assurance
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Quality Assurance
	KPI B6.2	Number of products and service related complaints received and how they were dealt with	Quality Assurance
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Intellectual Property and Data Protection
	KPI B6.4	Description of quality assurance process and recall procedures	Quality Assurance
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Intellectual Property and Data Protection
Aspect B7: Anti-corruption	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Integrity and Openness
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Integrity and Openness
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Integrity and Openness

Key Performance Indicators	HKEx ESG Reporting Guide Requirements		Section/Remarks
Aspect B8: Community Investment	**General Disclosure** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Contribution to Society
	KPI B8.1	Focus areas of contribution	Contribution to Society
	KPI B8.2	Resources contributed to the focus area	Contribution to Society

INDEPENDENT AUDITOR'S REPORT

MOORE

Moore Stephens CPA Limited

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大華馬施雲
會計師事務所有限公司

Independent Auditor's Report to the Members of China Touyun Tech Group Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Touyun Tech Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 153, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 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 ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the 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 these requirements and 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 31 to the consolidated financial statements, which highlights that the convertible bond has been past due and hence is due for immediate payment. The amount immediately payable by the Group, taken into account (a) outstanding principal (b) interest accrued but unpaid, (c) additional interest to make up an internal rate of return of 10.0% on the aggregate principal amount of the outstanding convertible bond, and (d) default interest at a rate of 18% per annum, was approximately US$28,876,000 (equivalent to HK$225,236,000). While the Group's cash and cash equivalents as at 31 December 2019 amounted to only HK$40,457,000. In December 2019, the Group received a letter from the convertible bond holder demanding repayment of the outstanding amount of the convertible bond.

These conditions, along with other matters as set forth in note 1(b) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of these matters.

KEY AUDIT MATTERS

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

Key audit matter	How the matter was addressed in our audit
Impairment assessment of goodwill	
As at 31 December 2019, the Group had goodwill with carrying amount of HK$Nil after impairment loss of HK$165 million had been recognised in profit or loss for the year ended 31 December 2019. Goodwill is required to be assessed for impairment at least annually in accordance with the applicable accounting standard. Impairment assessment is subjective and highly judgemental and has a high degree of estimation uncertainty. We therefore identified the impairment assessment of goodwill as a key audit matter. Details of the impairment assessment of goodwill are set out in note 17 to the consolidated financial statements.	Our procedures to address the matter included: • Discussed with the management of the Company, obtained understanding of internal reporting structure and assessed the reasonableness and appropriateness of allocation of goodwill; • Obtained the cash flow forecast of the group of CGUs approved by the directors of the Company for impairment assessment; • Discussed with the management of the Company and evaluated the appropriateness of the application of the value in use requirements; • Discussed with the management of the Company and challenged the reasonableness of key assumptions being used based on our knowledge of the business and industry, including the discount rate, sale growth rate, sale quantity and unit selling price; • Checked, on a sample basis, the accuracy, reliability and relevance of the input data used; and • Compared the recoverable amount with the carrying amount of the group of CGUs to assess whether adequate impairment loss has been made by the Group.

* *The English name of the PRC entity are translation of Chinese name and are included herein for identification only.*

Key audit matter	How the matter was addressed in our audit
Valuation of financial assets at fair value through profit or loss	
The Group holds unlisted equity investments related to equity investments in five private entities, which were intended to be held for long-term strategic purpose at the time of acquisition. Such financial assets were measured at fair value at the end of each reporting period. The aggregate fair value of these financial assets was HK$249 million as at 31 December 2019. Significant judgements and estimation are required to measure the fair value of financial assets, which reflect market conditions at the end of the reporting period. Management of the Group engaged an external valuer to perform valuation on one of the financial assets as at 31 December 2019. Fair value of the remaining unlisted equity securities were determined by the directors of the Company. Details of the Group's financial assets at fair value through profit or loss are set out in note 19 to the consolidated financial statements.	Our procedures to address the matter included: • Discussed with management of the Company and independent external valuer engaged by the Group and assessed the appropriateness of valuation methodology; • Discussed with management of the Company and/or independent external valuer and challenged the reasonableness of key assumptions being used based on our knowledge of the business and industry, including the discount rate on lack of marketability, the selection of proxy companies and weighting factor on multiples; • Reviewed the key unobservable inputs used by management of the Company and/or independent external valuer, including reliability of the sources of the inputs and their relevance to the equity investments; • Challenged the appropriateness of the valuation techniques used by the directors of the Company and/or independent external valuer in light of the nature of underlying business of the investees and the reliability of the data sources as well as adjustments applied to significant valuation inputs given the nature of those inputs; and • Evaluated the competency, capabilities and objectivity of independent external valuer, taking into account its experience and qualifications and business interests with the Group.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the chairman's statement, management discussion and analysis, directors' profile, directors' report, corporate governance report and environmental, social and governance report but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 of the Company 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 directors are assisted by the Audit Committee 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 solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 of the Company.

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

Moore Stephens CPA Limited
Certified Public Accountants

Chan King Keung
Practising Certificate Number: P06057

Hong Kong, 21 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue from treasury investment			
Fair value gains/(losses) on financial assets at fair value through profit or loss held for trading, net	5	**10,074**	(1,307)
Interest income from money lending business	5	**1,250**	–
Dividend income from financial assets at fair value through profit or loss held for trading	5	**1,393**	447
Revenue from sales of goods and services rendered	5	**329,979**	349,630
Cost of sales		**(217,202)**	(254,090)
Gross profit		**112,777**	95,540
Impairment loss of goodwill	17	**(164,702)**	(37,023)
Impairment loss of trade receivables, net	41(b)	**(3,210)**	(2,016)
Other income, gains and losses, net	6	**(28,330)**	(33,750)
Selling and distribution expenses		**(23,012)**	(31,645)
Administrative expenses		**(135,510)**	(207,708)
Finance costs	7	**(25,988)**	(41,807)
Share of result of a joint venture	18(b)	**–**	19
Share of result of an associate	18(a)	**60,362**	7,276
Loss before tax	8	**(194,896)**	(251,974)
Income tax	11	**(4,213)**	(1,989)
Loss for the year		**(199,109)**	(253,963)
Loss for the year attributable to:			
— Owners of the Company		**(200,513)**	(253,877)
— Non-controlling interests		**1,404**	(86)
		(199,109)	(253,963)
			(Restated)
Loss per share attributable to owners of the Company	13		
— Basic and diluted		**HK8.19 cents**	HK10.37 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Loss for the year	**(199,109)**	(253,963)
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**602**	1,367
Other comprehensive income for the year, net of tax	**602**	1,367
Total comprehensive loss for the year	**(198,507)**	(252,596)
Total comprehensive loss attributable to:		
Owners of the Company	**(199,911)**	(252,510)
Non-controlling interests	**1,404**	(86)
	(198,507)	(252,596)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	14	**29,264**	36,423
Right-of-use assets	15	**23,427**	–
Intangible assets	16	**10,741**	16,054
Goodwill	17	**–**	164,702
Interests in an associate	18(a)	**209,206**	148,844
Financial assets at fair value through profit or loss	19	**249,002**	243,009
		521,640	609,032
Current assets			
Inventories	21	**29,571**	35,597
Trade and bills receivables	22	**54,763**	61,804
Prepayments, deposits and other receivables	20	**9,895**	16,140
Note receivable	23	**–**	188,440
Loan and interest receivables	24	**71,250**	–
Financial assets at fair value through profit or loss	19	**158,825**	24,250
Restricted deposits	25(b)	**–**	10,928
Cash and cash equivalents	25(a)	**40,457**	97,513
		364,761	434,672
Current liabilities			
Trade payables	26	**32,154**	42,121
Contract liabilities	27	**24,239**	28,883
Other payables and accruals	28	**22,612**	17,883
Lease liabilities	29	**13,929**	–
Other borrowings	30	**11,596**	–
Tax payable		**1,930**	4,926
Derivative embedded in convertible bond	31	**–**	3,140
Convertible bond	31	**225,236**	219,461
		331,696	316,414
Net current assets		**33,065**	118,258
Total assets less current liabilities		**554,705**	727,290

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Deferred tax liabilities	32	–	42
Lease liabilities	29	10,138	–
		10,138	42
Net assets		544,567	727,248
Equity			
Equity attributable to owners of the parent			
Share capital	33	97,973	97,973
Reserves	34	443,232	628,819
		541,205	726,792
Non-controlling interests		3,362	456
Total equity		544,567	727,248

Wang Liang
Director

Du Dong
Director

	Notes	Issued capital HK$'000	Share premium account HK$'000 (note 34(a))	Capital reserve HK$'000 (note 34(b))	Contributed surplus HK$'000 (note 34(c))	Share option reserve HK$'000 (note 34(d))	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to owners of the parent									
At 31 December 2017		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 (restated)		97,973	1,769,428	45,291	(34,425)	10,006	3,851	(928,692)	963,432	542	963,974
Loss for the year		–	–	–	–	–	–	(253,877)	(253,877)	(86)	(253,963)
Exchange differences on translation of foreign operations		–	–	–	–	–	1,367	–	1,367	–	1,367
Total comprehensive income/(loss) for the year		–	–	–	–	–	1,367	(253,877)	(252,510)	(86)	(252,596)
Equity-settled share-based payments	35	–	–	–	–	15,870	–	–	15,870	–	15,870
Share option lapsed		–	–	–	–	(665)	–	665	–	–	–
Transactions with equity shareholders		–	–	–	–	15,205	–	665	15,870	–	15,870
At 31 December 2018		97,973	1,769,428*	45,291*	(34,425)*	25,211*	5,218*	(1,181,904)*	726,792	456	727,248

	Notes	Issued capital HK$'000	Share premium account HK$'000 (note 34(a))	Capital reserve HK$'000 (note 34(b))	Contributed surplus HK$'000 (note 34(c))	Share option reserve HK$'000 (note 34(d))	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to owners of the parent									
At 31 December 2018		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(b)	–	–	–	–	–	–	(811)	(811)	–	(811)
At 1 January 2019 (restated)		97,973	1,769,428	45,291	(34,425)	25,211	5,218	(1,182,715)	725,981	456	726,437
Loss for the year		–	–	–	–	–	–	(200,513)	(200,513)	1,404	(199,109)
Exchange differences on translation of foreign operations		–	–	–	–	–	602	–	602	–	602
Total comprehensive income/(loss) for the year		–	–	–	–	–	602	(200,513)	(199,911)	1,404	(198,507)
Partial disposal of a subsidiary	(i)	–	–	–	–	–	–	–	–	1,502	1,502
Equity-settled share-based payments	35	–	–	–	–	15,135	–	–	15,135	–	15,135
Share option lapsed		–	–	–	–	(4,782)	–	4,782	–	–	–
Transactions with equity shareholders		–	–	–	–	10,353	–	4,782	15,135	1,502	16,637
At 31 December 2019		97,973	1,769,428*	45,291*	(34,425)*	35,564*	5,820*	(1,378,446)*	541,205	3,362	544,567

* These reserve accounts comprise the consolidated reserves of HK$443,232,000 (2018: HK$628,819,000) in the consolidated statement of financial position.

Note:

(i) During the year ended 31 December 2019, the Group disposed of 23.08% equity interest in Era Bright Limited, a wholly-owned subsidiary of the Group, for a consideration of HK$1,500,000 to an independent third party. The disposal was completed on 26 June 2019 and had been accounted for as equity transaction. After the disposal, the Group retained its control in Era Bright Limited as at 31 December 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Loss before tax		**(194,896)**	(251,974)
Adjustments for:			
Amortisation of intangible assets	8	**7,935**	7,838
Bank interest income	6	**(198)**	(962)
Imputed interest income from note receivable	6	**(9,452)**	(10,525)
Gain on disposal of subsidiaries, net	6	**–**	(711)
Depreciation of property, plant and equipment	8	**7,203**	20,669
Depreciation of right-of-use assets	8	**16,444**	–
Fair value (gains)/losses on financial assets at fair value through profit or loss (held for trading), net	5	**(10,074)**	1,307
Fair value losses on financial assets at fair value through profit or loss (not held for trading), net	6	**42,967**	12,791
Fair value (gain)/loss on derivative component of convertible bond	6	**(3,140)**	1,313
Equity-settled share option expense	8	**15,135**	15,870
Finance costs	7	**25,988**	41,807
Gain on partial redemption of note receivable	6	**(2,108)**	(12,761)
Loss on early redemption of convertible bond	6	**–**	3,843
Share of result of a joint venture		**–**	(19)
Share of result of an associate		**(60,362)**	(7,276)
Loss on disposal of property, plant and equipment, net	6	**1,124**	2,385
Other receivable written off	6	**–**	675
Property, plant and equipment written off		**659**	–
Impairment loss of property, plant and equipment	6	**–**	40,718
Impairment loss of intangible assets	6	**1,274**	–
Impairment loss of trade receivables, net		**3,210**	2,016
Impairment loss of goodwill		**164,702**	37,023
		6,411	(95,973)
Decrease/(increase) in inventories		**7,719**	(11,766)
Decrease in trade and bills receivables and prepayments, deposits and other receivables		**10,076**	13,736
Increase in loan and interest receivables		**(71,250)**	–
Increase in financial assets at fair value through profit or loss (held for trading)		**(124,501)**	(11,307)
(Decrease)/increase in trade payables, contract liabilities and other payables and accruals		**(9,882)**	7,311
Cash used in operations		**(181,427)**	(97,999)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash used in operations		(181,427)	(97,999)
Interest received		198	962
Interest paid		(16,463)	(18,911)
Income Tax paid		(7,251)	(1,170)
Net cash flows used in operating activities		(204,943)	(117,118)
Cash flows from investing activities			
Proceeds from redemption of note receivable	23	200,000	120,000
Purchases of property, plant and equipment	14	(3,663)	(27,353)
Additions of intangible assets	16	(3,979)	(8,862)
Proceeds from disposal of property, plant and equipment		1,508	4,814
Net proceeds from disposal of subsidiaries		–	2,827
Decrease/(increase) in restricted deposits		10,928	(8)
Acquisition of financial assets at fair value through profit or loss, not held for trading	19	(48,960)	(120,200)
Net cash flows from/(used in) investing activities		155,834	(28,782)
Cash flows from financing activities			
Redemption of convertible bond	31	(3,276)	(105,836)
Repayments of lease liabilities/obligations under finance lease		(16,615)	(2,341)
New other borrowings raised		11,132	–
Proceeds from partial disposal of a subsidiary		1,502	–
Net cash flows used in financing activities		(7,257)	(108,177)
Net decrease in cash and cash equivalents		(56,366)	(254,077)
Cash and cash equivalents at beginning of year		97,513	348,655
Effect of foreign exchange rate changes, net		(690)	2,935
Cash and cash equivalents at end of year	25	40,457	97,513

1. GENERAL AND BASIS OF PREPARATION

(a) Corporate and group 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 year, 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.

(b) Basis of preparation

As at 31 December 2019, the convertible bond ("CB") as set out in note 31 has been past due and hence is due for immediate payment, and the amount immediately payable by the Group, taken into account (a) outstanding principal, (b) interest accrued but unpaid, (c) additional interest to make up an internal rate of return of 10.0% on the aggregate principal amount of the outstanding CB and (d) default interest at a rate of 18% per annum, was approximately US$28,876,000 (equivalent to HK$225,236,000). As at 31 December 2019, the Group's net current assets and cash and cash equivalent were amounting to HK$33,065,000 and HK$40,457,000 respectively.

In December 2019, the Group received a letter from the CB holder demanding repayment of the outstanding amount of the CB, and the letter did not specify any deadline for repayment. Despite the fact that no proceedings in respect of the outstanding CB have been instituted or threatened to be instituted by the CB holder against the Company, the above-mentioned conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on the assumptions that the Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 31 December 2019 and subsequently thereto up to the date when the consolidated financial statements are authorised for issue. In order to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted several measures together with other measures in progress at the date when the consolidated financial statements are authorised for issue, but not limited to, the followings:

(i) The Company has continued discussions with the CB holder with regards to the repayment arrangement of the CB, including but not limited to, agreeing to a repayment schedule;

(ii) The Group will strengthen and implement measures aiming at improving the working capital and cash flows of the Group, including closely monitoring the general administrative expenses and operating costs;

(iii) The Company will consider to improve the financial position of the Group and to enlarge the capital base of the Company by conducting fund raising exercises such as share subscription or placing when necessary; and

(iv) The Group is looking for an opportunity to realise part of its investment to reduce its overall business risk and to obtain additional working capital.

In addition, on 13 March 2020, the Company entered into a share subscription agreement with an independent third party, Tian Yuze, in relation to the subscription for 135,135,135 new shares of the Company at HK$0.37 per share. The net proceeds from the share subscription are HK$49,876,000 and the proceeds are intended to be applied as general working capital of the Group. The subscription agreement has been completed as at the date of this report.

1. GENERAL AND BASIS OF PREPARATION *(Continued)*

(b) Basis of preparation *(Continued)*

On 14 April 2020, the Company entered into a share subscription agreement with an independent third party, Ngai Shun, in relation to the subscription for 135,135,135 new shares of the Company at HK$0.37 per share. The net proceeds from the subscription are HK$49,976,000 and the proceeds are intended to be applied as general working capital of the Group. The subscription agreement has been completed as at the date of this report.

On the basis of the successful implementation of the measures described above in the foreseeable future and after assessing the Group's net current assets of HK$33,065,000 as at 31 December 2019, and Group's current and forecasted cash positions, taking into account the aggregate net proceeds of HK$99,852,000 from the share subscriptions, listed equity investments with fair value of HK$158,825,000 held by the Group as at 31 December 2019, which is considered as highly liquid assets, and subsequent repayment of loan and interest receivables of HK$71,250,000 as at 31 December 2019 as disclosed in note 24, the directors of the Company are satisfied that the Group will be able to meet in full the Group's financial obligations as they fall due for the twelve months from 31 December 2019. Accordingly, the consolidated financial statements of the Group have been prepared on the 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 the Group's assets to their recoverable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional currency. All values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention, 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.

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

Basis of consolidation *(Continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

A. the contractual arrangement with the other vote holders of the investee;

B. rights arising from other contractual arrangements; and

C. the Group's voting rights and potential voting rights.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control above. A change in the ownership interest of a subsidiary, without loss of control, is accounted for an equity transaction.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any investment retained and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

HKFRS 16 *Leases*

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

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 recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

As a lessee *(Continued)*

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:

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; and

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. Specifically, discount rates for certain leases of office equipment in the PRC and office building in Hong Kong and PRC were determined on a portfolio basis.

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%.

	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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

As a lessee *(Continued)*

The carrying amount of right-of-use assets for own use 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

The following adjustments were made to the amounts recognised in the 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$'000	Adjustments HK$'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)
Equity			
Reserves	628,819	(811)	628,008

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts [1]
Amendments to HKFRS 3	Definition of a Business [2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [3]
Amendments to HKAS 1 and HKAS 8	Definition of Material [4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform [4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) New and amendments to HKFRSs in issue but not yet effective *(Continued)*

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Investment in a joint venture and an associate

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have right to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

An associate is an entity in which the Group has significant influence, which is the power to participate in the financial and operating policy decision of the investee, but is not control or joint control over those policies.

The Group's investment in a joint venture or an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of a joint venture or an associate is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture or an associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint venture or an associate is eliminated to the extent of the Group's investment in a joint venture or an associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of a joint venture or an associate is included as part of the Group's investment in a joint venture or an associate.

If an investment in a joint venture becomes an investment in an associate or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of joint control over the joint venture or when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated profit or loss. The Group measures and recognises any retained investment at its fair value at the date when significant influence or joint control is lost and is recognised as a financial asset.

Gains or losses on dilution of equity interest in a joint venture or an associate are recognised in consolidated profit or loss.

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Business combinations and goodwill *(Continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20% or over the unexpired terms of the leases, if less than 5 years
Furniture, fixtures and equipment	10% to 33.3%
Motor vehicles	20% to 25%
Plant and machinery	10% to 33.3%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(g) Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2(b))

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2(b))

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 consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

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. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

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.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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 are 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 consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2(b)) *(Continued)*

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group as a lessee (prior to 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets other than goodwill

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The principal annual rate used for amortisation is as follows:

Patent	10%
Development costs	33.3%

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and 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, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(j) Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("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 FVTPL are recognised immediately in profit or loss.

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

Dividend income from financial assets at fair value through profit or loss held for trading and fair value gains or losses on financial assets at fair value through profit or loss held for trading, net which are derived from the Group's ordinary course of business are presented as revenue.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "revenue" line item.

(k) Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and bills receivables, other receivables, note receivable and other items (lease receivables) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done 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 conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 *(Continued)*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as 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.

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

- 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, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- 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;
- 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 has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower 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 debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 *(Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when 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, 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.

(iii) 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:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

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

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 *(Continued)*

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, loan and interest receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

(l) Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial liabilities

Initial recognition and measurement

Financial liabilities, at initial recognition, are recognised at fair value.

The Group's financial liabilities include trade payables, other payables and accruals, interest-bearing other borrowings and financial liabilities at fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKFRS 9 are satisfied.

Financial liabilities at amortised cost

After initial recognition, the Group's financial liabilities that include trade payable, other payables and accruals and interest-bearing other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Financial liabilities *(Continued)*

Subsequent measurement *(Continued)*

Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible loan notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible loan notes using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposure and are readily separate and independent of each other.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

(o) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(p) Inventories and contract costs

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(ii) Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses. Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 2(t).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Contract assets and contract liabilities

A 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 2(k) 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 (see note 2(t)). 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.

(r) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(s) Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

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 of economic benefits 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 of economic benefits is remote.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

A. the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

B. the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

C. the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. Revenue excludes value added taxes and is after deduction of any trade discounts.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of packaging products and QR code packaging products

Revenue is recognised when the customers take procession of and accept the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Provision of QR code packaging solutions

Revenue is recognised at a point in time when the development of software is completed.

(iii) Advertising display services income

Advertising display services income is recognised over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance.

(iv) Gains or losses on trading of securities

Gains or losses on trading of securities are recognised on a trade date basis when the relevant transaction are executed.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(u) Government grant

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., 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. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(w) Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(x) Other employee benefits

Pension schemes

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

The Group also operates a Mandatory Provident Fund Exempted Occupational Retirement Schemes Ordinance ("ORSO") retirement benefit scheme for those employees who are eligible to participate in the ORSO scheme. This scheme operates in a way similar to the MPF Scheme, except that when an employee leaves the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group are reduced by the relevant amount of forfeited employer's contributions.

The employees of the Group's subsidiaries which operates in People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

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

(y) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(y) Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(z) Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated to Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(aa) Fair value measurement

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(ab) Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

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

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

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

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related the Group;

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

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Significant judgement

Revenue recognition from the provision of QR code service relating to the development of software with no alternative use at a point in time

Under HKFRS 15, revenue is recognised over time when any of the criteria set out in note 2(t) is satisfied. The management assessed criteria (A) and (B) and concluded that these criteria are not met because the development is carried out in the Group's premises. In respect of criterion (C) about whether the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, significant judgement is required in determining whether the terms of the contracts with customers gives the Group an enforceable right to payment for the Group for the work performed to date at all times during the contract period. The Group has considered the relevant local laws that apply to those relevant contracts, the customary business practice of the Group in the industry in which it operates and the relevant legal and regulatory environment. Based on the assessment by the directors of the Company on the foregoing factors, the Group does not satisfy criterion (C). Accordingly, revenue from the provision of QR code service relating to the development of software with no alternative use is considered to be performance obligation satisfied at a point in time.

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 described below.

Impairment assessment on goodwill

The Group determines whether goodwill is impaired at least on an annual basis. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the respective group of CGUs and a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2019, the carrying amount of goodwill is HK$Nil (2018: HK$164,702,000) net of accumulated impairment loss of HK$569,947,000 (2018: HK$405,245,000) with impairment loss for the year of HK$164,702,000 (2018: HK$37,023,000) being recognised in profit or loss for the year ended 31 December 2019. Details of the recoverable amount calculation are disclosed in note 17.

Discount rate for lease liability

In determining the discount rate for lease liabilities, the Group is required to estimate and determine the discount rate (being the lessee's incremental borrowing rates) taking into account the nature of the underlying assets and the terms and conditions of the leases at the commencement date of lease as at initial application of HKFRS 16, as appropriate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Fair value of financial instruments

Certain of the Group's unquoted equity instruments and derivative liability embedded in convertible bond amounting to HK$249,002,000 (2018: HK$243,009,000) and HK$Nil (2018: HK$3,140,000) as at 31 December 2019 respectively are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques.

Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 40 for further disclosures.

Provision for obsolete and slow-moving inventories

The Group has a general provision policy on inventories based on ageing. The Group's sales and marketing managers review the inventory ageing listing on a periodical basis for those aged inventories. This involves a comparison of the carrying values of aged inventory items with their respective net realisable values. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether allowance needs to be made in respect of any obsolete and defective inventories identified.

Provision of ECL for trade and bills receivables

The Group uses provision matrix to calculate ECL for trade and bills receivables. The provision rates are based on the Group's internal credit review from the Group's historical repayment pattern and the Group's groupings of various debtors that are considered to have similar credit risk. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and adjusted to reflect changes in the forward-looking information. In addition, trade and bills receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and bills receivables are disclosed in notes 41 and 22.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield. The assumptions and models used for estimating fair value for share-based payments are disclosed in note 35.

4. SEGMENT INFORMATION

The Group has three reportable 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 results of a joint venture and an associate and head office and corporate income and expenses are excluded from such measurement.

There was no inter-segment sale or transfer during the year (2018: Nil). Central revenue 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.

4. SEGMENT INFORMATION *(Continued)*

	QR code business		Packaging products		Treasury investment		Total	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Group's revenue	**69,691**	73,405	**260,288**	276,225	**–**	–	**329,979**	349,630
Fair value gains/(losses) on financial assets at fair value through profit or loss held for trading, net	**–**	–	**–**	–	**10,074**	(1,307)	**10,074**	(1,307)
Interest income from money lending business	**–**	–	**–**	–	**1,250**	–	**1,250**	–
Dividend income from financial assets at FVTPL held for trading	**–**	–	**–**	–	**1,393**	447	**1,393**	447
Segment revenue	**69,691**	73,405	**260,288**	276,225	**12,717**	(860)	**342,696**	348,770
Segment results	**(199,724)**	(195,734)	**20,514**	8,423	**12,582**	(890)	**(166,628)**	(188,201)
Corporate and unallocated income, gains and losses							**(27,244)**	5,696
Corporate and unallocated expenses							**(35,398)**	(34,957)
Share of result of a joint venture							**–**	19
Share of result of an associate							**60,362**	7,276
Finance costs							**(25,988)**	(41,807)
Loss before tax							**(194,896)**	(251,974)

	QR code business		Packaging products		Treasury investment		Total	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Other segment information:								
Capital expenditure								
— operating segment	**785**	44,935	**2,878**	39	**–**	–	**3,663**	44,974
— unallocated							**–**	13
							3,663	44,987
Interest income								
— operating segment	**126**	849	**35**	28	**–**	–	**161**	877
— unallocated							**9,489**	10,610
							9,650	11,487
Depreciation								
— operating segment	**3,655**	18,941	**3,534**	1,719	**–**	–	**7,189**	20,660
— unallocated							**14**	9
							7,203	20,669
Amortisation of intangible assets	**7,935**	7,838	**–**	–	**–**	–	**7,935**	7,838
Loss on disposal of property, plant and equipment	**1,124**	2,385	**–**	–	**–**	–	**1,124**	2,385
Impairment of property, plant and equipment	**–**	40,718	**–**	–	**–**	–	**–**	40,718
Property, plant and equipment written off	**134**	–	**525**	–	**–**	–	**659**	–
Impairment loss of trade receivables, net	**3,210**	2,016	**–**	–	**–**	–	**3,210**	2,016
Impairment loss of goodwill	**164,702**	37,023	**–**	–	**–**	–	**164,702**	37,023
Impairment loss of intangible assets	**1,274**	–	**–**	–	**–**	–	**1,274**	–

4. SEGMENT INFORMATION *(Continued)*

Revenue from external customers based on the locations of these customers is analysed as follows:

	2019 HK$'000	2018 HK$'000
QR code business		
— PRC	**69,691**	73,405
Packaging products		
— Hong Kong and the PRC	**109,501**	128,218
— Europe	**79,856**	91,629
— North and South America	**31,694**	34,307
— Others	**39,237**	22,071
	260,288	276,225
Treasury investment		
— Hong Kong	**12,717**	(860)
Segment revenue	**342,696**	348,770

The geographical locations of the Group's non-current assets, except for financial assets at fair value through profit or loss are analysed as follows:

	2019 HK$'000	2018 HK$'000
Hong Kong	**227,653**	149,790
Mainland China	**44,985**	216,233
	272,638	366,023

The non-current asset information above is based on the locations of the assets.

Information about major customers

Revenue derived from customers in the packaging products segment which individually accounted for more than 10% of the Group's revenue is as follows:

	2019 HK$'000	2018 HK$'000
Customer A	**41,532**	39,268
Customer B	**40,273**	45,559

5. REVENUE

An analysis of 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, dividend income on investment portfolio and interest income from money lending business.

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

	2019 HK$'000	2018 HK$'000
Manufacturing and sales of packaging products	**260,288**	276,225
Provision of QR code packaging products and solutions	**68,283**	71,625
Advertising display service income	**1,408**	1,780
	329,979	349,630
Fair value gains/(losses) on financial assets at fair value through profit or loss held for trading, net (note (i))	**10,074**	(1,307)
Interest income from money lending business	**1,250**	–
Dividend income from financial assets at fair value through profit or loss held for trading	**1,393**	447
	342,696	348,770

Note:

(i) During the year ended 31 December 2019, the gross proceeds from the disposal of listed equity investments classified as financial assets at fair value through profit or loss for the year were approximately HK$21,560,000. During the year ended 31 December 2018, the Group did not dispose of any listed equity investments classified as financial assets at fair value through profit or loss held for trading.

The revenue within the scope of HKFRS 15 for the year ended 31 December 2019 were categorised by timing of revenue recognition at (i) a point in time of HK$328,571,000 (2018: HK$347,850,000) and (ii) over time of HK$1,408,000 (2018: HK$1,780,000).

An analysis of revenue from contracts with customers by geographic markets is disclosed in note 4.

The Group's customer base is diversified and information about major customers is disclosed in note 4. Details of concentrations of credit risk are set out in note 41(b).

6. OTHER INCOME, GAINS AND LOSSES, NET

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

	Notes	2019 HK$'000	2018 HK$'000
Bank interest income		**198**	962
Imputed interest income from note receivable		**9,452**	10,525
Sale of scrap materials		**–**	127
Gain on partial redemption of note receivable	23	**2,108**	12,761
Gain on disposal of subsidiaries, net		**–**	711
Loss on early redemption of convertible bond ("CB")		**–**	(3,843)
Fair value gain/(loss) on derivative component of CB (including changes arising from early redemption of CB)	31	**3,140**	(1,313)
Fair value loss on financial assets at fair value through profit or loss (not held for trading), net		**(42,967)**	(12,791)
Foreign exchange differences, net		**785**	(756)
Impairment loss of property, plant and equipment	14	**–**	(40,718)
Impairment loss of intangible assets	16	**(1,274)**	–
Loss on disposal of property, plant and equipment, net		**(1,124)**	(2,385)
Property, plant and equipment written off		**(659)**	–
Other receivable written off		**–**	(675)
Others		**2,011**	3,645
		(28,330)	(33,750)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Note	2019 HK$'000	2018 HK$'000
Interest expense on CB	31	**23,988**	41,187
Interest on lease liabilities (2018: interest on obligations under finance lease)		**1,271**	620
Interest on other borrowings		**729**	–
		25,988	41,807

Included in interest expense on CB for the year ended 31 December 2019 was an amount of HK$5,600,000 related to penalty interest expense for the default of repayment (2018: HK$5,641,000 related to accelerated interest expense for the breach of financial covenants of convertible bond agreement).

8. LOSS BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Auditor's remuneration		**1,420**	1,350
Cost of inventories sold		**217,202**	254,090
Depreciation of property, plant and equipment	14	**7,203**	20,669
Depreciation of right-of-use assets	15	**16,444**	–
Amortisation of intangible assets	16	**7,935**	7,838
Short-term lease payments (2018: Minimum lease payments under operating leases)		**1,073**	15,152
Research and development cost		**17,308**	33,339
Employee benefits expenses (including directors' remuneration (note 9)):			
Wages and salaries		**59,128**	63,193
Pension scheme contributions		**1,334**	7,355
		60,462	70,548
Equity-settled share option expense	35	**15,135**	15,870

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, Section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 HK$'000	2018 HK$'000
Fees	**744**	744
Other emoluments:		
Salaries, allowances and benefits in kind	**4,075**	3,870
Bonus	**429**	429
Share-based payments	**1,110**	2,517
Pension scheme contributions	**111**	84
	6,469	7,644

9. DIRECTORS' REMUNERATION *(Continued)*

(a) Executive directors and non-executive directors

Year ended 31 December 2019	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Pension scheme contributions HK$'000	Sub-total HK$'000	Share-based payments HK$'000	Total remuneration HK$'000
Executive directors:							
Mr. Wang Liang	–	1,300	200	18	1,518	325	1,843
Mr. Du Dong	–	1,040	160	18	1,218	271	1,489
Mr. Lo Yuen Wa Peter	–	1,014	39	18	1,071	81	1,152
	–	3,354	399	54	3,807	677	4,484
Non-executive director:							
Mr. Chen Hui	–	721	–	57	778	271	1,049
	–	721	–	57	778	271	1,049
	–	4,075	399	111	4,585	948	5,533

Year ended 31 December 2018	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Pension scheme contributions HK$'000	Sub-total HK$'000	Share-based payments HK$'000	Total remuneration HK$'000
Executive directors:							
Mr. Wang Liang	–	1,200	200	18	1,418	737	2,155
Mr. Du Dong	–	960	160	18	1,138	614	1,752
Mr. Lo Yuen Wa Peter	–	975	39	18	1,032	183	1,215
	–	3,135	399	54	3,588	1,534	5,122
Non-executive director:							
Mr. Chen Hui	–	735	–	30	765	614	1,379
	–	735	–	30	765	614	1,379
	–	3,870	399	84	4,353	2,148	6,501

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Fees HK$'000	Bonus HK$'000	Share-based payments HK$'000	2019 Total HK$'000	2018 HK$'000
Mr. Cheung Wing Ping	**248**	**10**	**54**	**312**	381
Mr. Ha Kee Choy Eugene	**248**	**10**	**54**	**312**	381
Mr. To Shing Chuen	**248**	**10**	**54**	**312**	381
	744	**30**	**162**	**936**	1,143

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

During the year, no emolument was paid by the Group to any of the directors of the Company as an inducement join or upon joining the Group or as compensation for loss of office (2018: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2018: two directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the two (2018: three) highest paid employees are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	**9,195**	8,582
Share based payments	**677**	1,351
Pension scheme contributions	**254**	290
	10,126	10,223

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

	Number of employees 2019	2018
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**1**	1

11. INCOME TAX

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Note	2019 HK$'000	2018 HK$'000
Current tax — Hong Kong Profits Tax			
Provision for the year		**3,200**	716
Current tax — PRC Corporate Income Tax			
Provision for the year		**690**	1,287
Under-provision in respect of previous year		**365**	–
		4,255	2,003
Deferred tax	32	**(42)**	(14)
		4,213	1,989

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%.

Qualipak Manufacturing Limited, a subsidiary of the Group, is qualified for the two-tiered profits tax rates regime and accordingly its profits tax 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%.

In accordance with the PRC Corporate Income Tax Law, the PRC Corporate Income Tax is calculated at a statutory rate of 25% (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.*, "BJTY" (previously known as (Sigmatrix Technology Co. Ltd.*, "Sigmatrix")), 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%.

* *For identification purpose only*

11. INCOME TAX *(Continued)*

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2019 HK$'000	2018 HK$'000
Loss before tax	**(194,896)**	(251,974)
Tax at applicable statutory tax rate	**(34,839)**	(54,972)
Hong Kong statutory tax concession	**(185)**	(165)
Tax effect of PRC preferential tax treatments	**3,148**	15,748
Profit attributable to a joint venture	**–**	(3)
Profit attributable to an associate	**(9,960)**	(1,200)
Income not subject to tax	**(2,490)**	(5,362)
Expenses not deductible for tax	**43,789**	22,855
Utilisation of tax losses brought forward	**(2,068)**	–
Tax losses not recognised	**6,453**	25,088
Under-provision in respect of previous year	**365**	–
Income tax expense	**4,213**	1,989

12. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2018: Nil).

13. 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 years ended 31 December 2019 and 2018 are based on the following data:

	2019 HK$'000	2018 HK$'000
Loss for the year attributable to owners of the Company	**(200,513)**	(253,877)
	'000	'000 (Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**2,449,328**	2,449,328

The weighted average number of ordinary shares for the year ended 31 December 2019 has included the effect of share consolidation as disclosed in note 33.

The weighted average number of ordinary shares for the purpose of calculation of basic loss per share for the year ended 31 December 2018 has been retrospectively adjusted to reflect the share consolidation as mentioned above and disclosed in note 33.

The computation of diluted loss per share for the years ended 31 December 2019 and 2018 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.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
At 1 January 2018	3,754	41,177	5,292	37,466	1,668	89,357
Additions	–	22,742	–	5,829	7,554	36,125
Disposal	–	(250)	–	(6,210)	(2,104)	(8,564)
Written off	(732)	–	–	(1,699)	–	(2,431)
Transfer	–	852	–	1,316	(2,168)	–
Exchange realigment	(141)	(2,815)	(46)	(1,785)	(242)	(5,029)
As at 31 December 2018 and 1 January 2019	**2,881**	**61,706**	**5,246**	**34,917**	**4,708**	**109,458**
Additions	**2,232**	**385**	**–**	**285**	**761**	**3,663**
Disposal	**–**	**(220)**	**–**	**(1,376)**	**(1,622)**	**(3,218)**
Written off	**–**	**(21)**	**–**	**(668)**	**–**	**(689)**
Transfer upon completion of construction in progress	**–**	**–**	**–**	**2,195**	**(2,195)**	**–**
Transfer from plant and machinery to furniture, fixtures and equipment	**–**	**1,990**	**–**	**(1,990)**	**–**	**–**
Exchange realigment	**(35)**	**(672)**	**(12)**	**(449)**	**7**	**(1,161)**
At 31 December 2019	**5,078**	**63,168**	**5,234**	**32,914**	**1,659**	**108,053**
Accumulated depreciation and impairment						
At 1 January 2018	1,325	9,047	4,039	4,275	–	18,686
Depreciation provided for the year	963	12,847	635	6,224	–	20,669
Written back on disposals	–	(212)	–	(1,153)	–	(1,365)
Written off	(732)	–	–	(1,699)	–	(2,431)
Impairment	–	40,718	–	–	–	40,718
Exchange realigment	(79)	(2,865)	(36)	(262)	–	(3,242)
As at 31 December 2018 and 1 January 2019	**1,477**	**59,535**	**4,638**	**7,385**	**–**	**73,035**
Depreciation provided for the year	**2,565**	**929**	**431**	**3,278**	**–**	**7,203**
Written back on disposals	**–**	**(205)**	**–**	**(381)**	**–**	**(586)**
Written off	**–**	**(15)**	**–**	**(15)**	**–**	**(30)**
Transfer from plant and machinery to furniture, fixtures and equipment	**–**	**1,882**	**–**	**(1,882)**	**–**	**–**
Exchange realigment	**(38)**	**(660)**	**(12)**	**(123)**	**–**	**(833)**
At 31 December 2019	**4,004**	**61,466**	**5,057**	**8,262**	**–**	**78,789**
Carrying amount						
At 31 December 2019	**1,074**	**1,702**	**177**	**24,652**	**1,659**	**29,264**
At 31 December 2018	1,404	2,171	608	27,532	4,708	36,423

The Group reviewed the economic environment and market conditions of the certain cities the retailers management system of QR code business is operating during the year ended 31 December 2018, and assessed the carrying amount of those equipment related to retailers management system (classified under furniture, fixtures and equipment). Accordingly, the carrying amount of such equipment was fully impaired and an impairment loss of HK$40,718,000, which was determined by its recoverable amount based on its fair value less cost of disposal and was fully recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2018.

15. RIGHT-OF-USE ASSETS

	Office buildings HK$'000	Office equipment HK$'000	Total HK$'000
As at 1 January 2019 (recognised upon the application of HKFRS 16)			
Carrying amount	16,251	30	16,281
As at 31 December 2019			
Carrying amount	23,405	22	23,427
For the year ended 31 December 2019			
Depreciation charge	16,436	8	16,444
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16			1,073
Total cash outflow for leases			18,959
Additions to right-to-use assets			23,609

For both years, the Group leases various offices and equipment for its operations. Lease contracts are entered into for fixed terms of 1 year to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

16. INTANGIBLE ASSETS

	Patent HK$'000	Development costs (note (i)) HK$'000	Total HK$'000
Cost			
At 1 January 2018	2,977	13,398	16,375
Additions	–	8,862	8,862
Exchange realignment	(118)	(1,103)	(1,221)
At 31 December 2018 and 1 January 2019	**2,859**	**21,157**	**24,016**
Additions	**–**	**3,979**	**3,979**
Exchange realignment	**(34)**	**(334)**	**(368)**
At 31 December 2019	**2,825**	**24,802**	**27,627**
Accumulated amortisation			
At 1 January 2018	567	–	567
Provided for the year	411	7,427	7,838
Exchange realignment	(68)	(375)	(443)
At 31 December 2018 and 1 January 2019	**910**	**7,052**	**7,962**
Provided for the year	**393**	**7,542**	**7,935**
Impairment loss for the year (note (ii))	**–**	**1,274**	**1,274**
Exchange realignment	**(19)**	**(266)**	**(285)**
At 31 December 2019	**1,284**	**15,602**	**16,886**
Carrying amount			
At 31 December 2019	**1,541**	**9,200**	**10,741**
At 31 December 2018	1,949	14,105	16,054

Notes:

(i) The development costs are internally generated for the QR code business.

(ii) Impairment loss of HK$1,274,000 in respect of all development costs on traceability platform had been fully recognised during the year ended 31 December 2019 as the Group considered that the recoverable amount of the asset is likely to be negligible, taking into account that the Group is unable to make successful bid on the projects for product tracing. Accordingly, the anticipated cash flows to be generated from the future use of the asset would be insignificant. The directors of the Company considered no impairment loss for development costs of other platforms is necessary as at 31 December 2019 (2018: Nil).

17. GOODWILL

	2019 HK$'000	2018 HK$'000
Cost		
1 January and 31 December	**569,947**	569,947
Accumulated impairment losses		
1 January	**405,245**	368,222
Impairment loss for the year	**164,702**	37,023
31 December	**569,947**	405,245
Net carrying amount		
31 December	**–**	164,702

The goodwill has been allocated to cash generating units of subsidiaries engaged in the provision of QR code on product packaging and advertising display services (the "QR Code CGUs").

The aggregated recoverable amount of the group of QR Code CGUs is determined based on value in use calculations. The calculation uses cash flow projection based on financial budget approved by management covering a five-year period. The group of QR Code CGUs' cash flow beyond the five-year period is extrapolated using 3% (2018: 3%) growth rate for group of QR Code CGUs.

The growth rate used does not exceed the long-term average growth rates for the businesses in which the group of QR Code CGUs operate. The pre-tax discount rate used of 15.52% (2018: 15.79%) for QR code business reflects specific risks relating to the relevant unit. Other key assumptions for the value in use calculations relate to the estimation of cash inflow/outflows which include budgeted sales and gross margin, such estimation is based on the units' past performance and management's expectations for market development. In the opinion of the Company's directors, a decrease in the revenue growth rate by 1% per annum and gross margin by 1% per annum would cause the carrying amount of the group of QR Code CGUs to exceed its recoverable amount further by approximately HK$18,593,000 (2018: HK$51,369,000) and HK$5,152,000 (2018: HK$14,620,000) respectively.

The Group's QR code businesses face various challenges throughout the year, including the increasing competitors in the market, the lower entry barrier into the QR code market, and the keen competitions in the market. In additions, the COVID-19 impact various business sectors in the PRC, including not only the Group's customers engaged in consumer goods business industry but also the marco economics environment in the PRC.

The aggregated recoverable amount of the group of QR Code CGUs was calculated based on value in use method that is lower than the carrying value of the net assets of the group of QR Code CGUs and the goodwill allocated to the group of QR Code CGUs. Accordingly, an impairment loss on goodwill of HK$164,702,000 (2018: HK$37,023,000) was recognised in profit or loss for the year ended 31 December 2019.

18. INTERESTS IN AN ASSOCIATE/A JOINT VENTURE

(a) Interests in an associate

	2019 HK$'000	2018 HK$'000
At beginning of the year	148,844	–
Reclassified from a joint venture	–	141,568
Share of profit for the year*	60,362	7,276
Share of net assets	209,206	148,844

* Included in share of profit for the year is share of gain arising from capital injection from non-controlling shareholders of an associate's subsidiary amounting to approximately HK$14,262,000.

(b) Interests in a joint venture

	2019 HK$'000	2018 HK$'000
At beginning of the year	–	141,549
Share of profit for the year	–	19
Reclassified as an associate	–	(141,568)
Share of net assets	–	–

(c) Particulars of associate

Particulars of the Group's interests in an associate as at 31 December 2019 and 2018 is as follows:

Name	Particulars of issued shares held	Place of incorporation and business	Percentage of ownership interest	Percentage of voting power	Percentage of profit sharing	Principal activities
FreeOpt Holdings Limited ("FreeOpt")	Ordinary share without par value	Republic of Marshall Islands/ Hong Kong	31.38% (2018: 31.38%)	31.38% (2018: 31.38%)	31.38% (2018: 31.38%)	Investment holding and money lending

On 30 December 2015, Marvel Galaxy Limited ("MGL") (an indirect wholly-owned subsidiary of the Company) entered into a joint venture agreement with Freeman Financial Investment Corporation ("FFIC") (a wholly-owned subsidiary of Freeman Financial Corporation Limited), pursuant to which MGL and FFIC conditionally agreed to cooperate to set-up the joint venture to carry out business of provision of financial services and money lending by contributing HK$150 million each to the initial share capital of the joint venture so that MGL and FFIC will each hold 50% equity interest in the joint venture. Further details of the joint venture contribution were disclosed in the announcement of the Company dated 30 December 2015. The Group's capital contribution of HK$150,000,000 was made on 5 January 2016.

18. INTERESTS IN AN ASSOCIATE/A JOINT VENTURE *(Continued)*

(c) Particulars of associate *(Continued)*

Thereafter, during the year ended 31 December 2016, FreeOpt effected an increase in registered capital whereby FFIC and certain independent third party new investors ("2016 Investors") injected additional capital to FreeOpt amounting to HK$83,000,000 in aggregate. As a result of such increase in registered capital, the Group's equity interest in FreeOpt was diluted from 50% to 39.16% and a gain on dilution of interest in a joint venture of HK$1,076,000 was recognised during the year ended 31 December 2016.

During the year ended 31 December 2017, FreeOpt effected an increase in registered capital whereby an independent third party new investor ("2017 Investor") injected HK$95,000,000 to FreeOpt. As a result, the Group's interest in FreeOpt was further diluted to 31.38% and a gain on dilution of interest in a joint venture amounting to HK$2,533,000 was recognised during the year ended 31 December 2017. Despite the dilution in equity interest, the Group was still able to exert joint control over relevant activities of FreeOpt. Accordingly, the Group continues to account for such investment as a joint venture.

On 4 October 2018, the Group entered into a termination of joint venture agreement with FFIC, 2016 Investors and 2017 Investor to cease the joint venture relationship without changing their respective shareholdings in FreeOpt. Thereafter, the shareholders exercise their voting rights in the shareholder meeting, which is the highest decision-making body of FreeOpt, in proportion to their shareholdings. Therefore, FreeOpt has then become the Group's associate from 4 October 2018 as in the opinion of the directors of the Company, the Group has significant influence over FreeOpt.

18. INTERESTS IN AN ASSOCIATE/A JOINT VENTURE *(Continued)*

The following table illustrates the summarised financial information, extracted from the management accounts of FreeOpt, reconciled to the carrying amount in the consolidated financial statements.

Summarised consolidated statement of financial position

	2019 HK$'000	2018 HK$'000
Current assets		
Listed investments at FVTPL	326,186	157,000
Loan receivables	1,023,000	338,000
Loan interest receivable	12,021	4,312
Prepayments	23	47
Tax prepaid	1,067	801
Cash and cash equivalents	1,167	1,026
	1,363,464	501,186
Current liabilities		
Other payables	(10,228)	(26,858)
Loan and interest payable	(686,546)	–
	(696,774)	(26,858)
Net assets	666,690	474,328
Equity		
Share capital	478,000	478,000
Reserves	188,690	(3,672)
Total equity	666,690	474,328

Summarised consolidated statement of comprehensive income

	2019 HK$'000	2018 HK$'000
Revenue	11,841	10,449
Other income	6,377	1,466
Fair value gain on investment at FVTPL	136,581	16,492
Finance costs	(6,546)	(3,596)
Administrative expenses	(1,341)	(893)
Profit before tax	146,912	23,918
Income tax	–	(670)
Profit and total comprehensive income for the year	146,912	23,248

18. INTERESTS IN AN ASSOCIATE/A JOINT VENTURE *(Continued)*

Reconciliation summarised financial statements

Reconciliation of the summarised financial information presented to the carrying amount of its interests in an associate/a joint venture.

	2019 HK$'000	2018 HK$'000
Opening net assets as at 1 January	474,328	451,080
Capital injection from non-controlling shareholders of a subsidiary	45,450	–
Profit and total comprehensive income for the year	146,912	23,248
Closing net assets as at 31 December	666,690	474,328
Percentage of the Group's interest in FreeOpt	31.38%	31.38%
Carrying value as at 31 December	209,206	148,844

The Group has no contingent liabilities in relation to its interest in FreeOpt.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Non-current assets		
Unlisted equity investments, at fair value (note (i))		
Company A	100,618	130,812
Company B	4,025	23,293
Company C	37,360	34,521
Company D	59,275	54,383
Company E (note (ii))	47,724	–
	249,002	243,009
Current assets		
Listed equity investments held for trading, at fair value	158,825	24,250

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes:

(i) 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. Details of the fair value measurement are disclosed in note 40.

(ii) On 9 May 2019, the Group subscribed for new shares allotted by Company E that represented approximately 20% of the enlarged share capital of Company E at a cash consideration of HK$48,960,000. As at 31 December 2019, the shareholding was diluted to 12.86% as Company E issued additional shares to another investor.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Prepayments	**1,402**	5,628
Deposits	**6,448**	5,709
Other receivables	**2,045**	4,803
	9,895	16,140

21. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**3,459**	6,068
Work in progress	**4,647**	8,877
Finished goods	**21,465**	20,652
	29,571	35,597

22. TRADE AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade and bills receivables	**58,855**	63,145
Less: Impairment loss allowance (note 41(b))	**(4,092)**	(1,341)
	54,763	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:

	2019 HK$'000	2018 HK$'000
Within 1 month	**32,151**	30,929
1 to 2 months	**12,904**	16,463
2 to 3 months	**1,617**	7,067
Over 3 months	**8,091**	7,345
	54,763	61,804

Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 41(b).

23. NOTE RECEIVABLE

The principal amount of the promissory note was HK$320,000,000, representing the consideration for disposal of a financial asset at FVTPL in 2018. The promissory note bears zero coupon rate with maturity date of 30 June 2019. The fair value of the promissory note at initial recognition was approximately HK$285,154,000. The promissory note was measured at amortised cost with an effective interest rate of 13%. Partial promissory note amounting to HK$120,000,000 and HK$100,000,000 were early repaid in August 2018 and April 2019, respectively. The early redemption resulting in a gain of HK$2,108,000 (2018: HK$12,761,000) during the year ended 31 December 2019.

In June 2019, the issuer of promissory note 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 with remaining outstanding principal amount of HK$100,000,000 from 30 June 2019 to 30 September 2019. Other than the aforesaid amendments, the terms and conditions of the promissory note shall remain unchange and in fully force and effect. The remaining promissory note was fully repaid on 19 September 2019.

24. LOAN AND INTEREST RECEIVABLES

The exposure of the Group's fixed-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

	2019 HK$'000	2018 HK$'000
Fixed-rate loan receivables		
Within one year	71,250	–

The ranges of effective interest rates which are equal to contractual interest rates on the Group's loan receivables are as follows:

	2019	2018
Effective interest rate		
Fixed-rate loan receivables	10%	N/A

The loan and interest receivables were fully repaid subsequent to 31 December 2019.

25. CASH AND CASH EQUIVALENTS, RESTRICTED DEPOSITS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents

	2019 HK$'000	2018 HK$'000
Cash and bank balances	**40,457**	97,513

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$18,746,000 (2018: HK$45,730,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Included in cash and bank balance were HK$6,234,000 (2018: HK$1,127,000) of short-term highly liquid investments that was readily convertible into known amount of cash.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

(b) Restricted deposits

Pursuant to the term of the CB (as defined in note 31) issued by the Company in November 2017 with more details set out in note 31, the Company is required to maintain at the designated bank account at all times until the maturity date of the CB an amount of not less than US$1.4 million (equivalent to HK$10,920,000), which represented the six-month interest on the CB required to be paid by the Company pursuant to the terms of the CB. Such amount of HK$10,842,000 has been used to repay the outstanding CB on 8 November 2019 (2018: HK$10,928,000 were classified as restricted deposit).

25. CASH AND CASH EQUIVALENTS, RESTRICTED DEPOSITS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's major liabilities arising from financing activities, including both cash and non-cash changes.

	Debt component of the convertible bond (Note 31) HK$'000	Lease liabilities (Note 29) HK$'000	Derivative embedded in the convertible bond (Note 31) HK$'000	Other borrowings (Note 30) HK$'000	Total HK$'000
At 1 January 2019	219,461	17,092	3,140	–	239,693
Financing cash flow					
Repayment of CB	(3,276)	–	–	–	(3,276)
Repayment of lease liabilities	–	(16,615)	–	–	(16,615)
New other borrowings raised	–	–	–	11,132	11,132
	(3,276)	(16,615)	–	11,132	(8,759)
Changes in fair values	–	–	(3,140)	–	(3,140)
Other changes					
Interest expenses	23,988	1,271	–	729	25,988
Interest paid	(14,937)	(1,271)	–	(255)	(16,463)
New leases	–	23,609	–	–	23,609
Exchange difference	–	(19)	–	(10)	(29)
	9,051	23,590	–	464	33,105
At 31 December 2019	225,236	24,067	–	11,596	260,899

25. CASH AND CASH EQUIVALENTS, RESTRICTED DEPOSITS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities *(Continued)*

	Debt component of the convertible bond (Note 31) HK$'000	Obligations under finance lease HK$'000	Derivative embedded in the convertible bond (Note 31) HK$'000	Total HK$'000
At 1 January 2018	298,558	2,341	1,827	302,726
Financing cash flow				
Finance lease repayment	–	(2,341)	–	(2,341)
Early redemption of CB	(105,836)	–	–	(105,836)
	(105,836)	(2,341)	–	(108,177)
Changes in fair values	–	–	1,313	1,313
Other changes				
Interest expenses	41,187	620	–	41,807
Interest paid	(18,291)	(620)	–	(18,911)
Loss on early redemption of CB	3,843	–	–	3,843
	26,739	–	–	26,739
At 31 December 2018	219,461	–	3,140	222,601

(d) Significant non-cash transaction

As disclosed in note 23, the consideration for the disposal of Win Wind Capital Limited in 2018, a financial asset at FVTPL, was satisfied by the promissory note issued by the purchaser.

26. 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:

	2019 **HK$'000**	2018 HK$'000
Within 1 month	**22,564**	24,698
1 to 2 months	**3,390**	9,442
2 to 3 months	**161**	3,908
Over 3 months	**6,039**	4,073
	32,154	42,121

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

27. CONTRACT LIABILITIES

	2019 **HK$'000**	2018 HK$'000
Contract liabilities		
Billings in advance of performance		
— Made-to-order software development	**16,871**	14,568
— Packaging products	**7,368**	14,315
	24,239	28,883

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Sales of QR code related equipment

The Group typically receives a deposit on acceptance of the customers' order. The amount of deposits on acceptance of orders is assessed on a case by case basis before work commences.

The remainder of the consideration is payable on the earlier of the delivery of the finished goods and notice from the customer to cancel the order.

When the Group receives a deposit before the Group's relevant activity commences, this will give rise to contract liabilities at the start of a contract until the revenue is recognised.

27. CONTRACT LIABILITIES *(Continued)*

Made-to-order software development service

The Group receives upfront deposit or initial payments from customers before the development activity commences according to the stage payment schedules in the contract. The upfront deposit or initial payments on acceptance of orders is assessed on a case by case basis before work commences. The amount received from customers gave rise to contract liabilities until revenue is recognised when the performance obligation is satisfied.

Packaging products

The Group receives payments from new customers on acceptance of new order. The remainder of the consideration is payable on the earlier of the delivery of the finished goods and the notice from the customer to cancel the order. If the customer cancels the order, then the Group is immediately entitled to receive payment for work done to date.

Movements in contract liabilities

	2019 HK$'000	2018 HK$'000
At 1 January	**28,883**	10,013
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(28,883)**	(10,013)
Increase in contract liabilities as a result of billing in advance	**16,871**	20,649
Increase in contract liabilities as a result of receiving forward sales deposits during the year	**7,368**	8,234
At 31 December	**24,239**	28,883

The amount of billings in advance of performance and forward sales deposits and instalments received are expected to be recognised as income within one year.

28. OTHER PAYABLES AND ACCRUALS

	2019 HK$'000	2018 HK$'000
Deposits received	**–**	154
Other payables	**9,459**	2,439
Accruals	**13,153**	15,290
	22,612	17,883

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

29. LEASE LIABILITIES

	2019 HK$'000
Lease liabilities	
Within one year	13,929
Within a period of more than one year but not more than two years	9,390
Within a period of more than two years but not more than five years	748
	24,067
Less: Amount due for settlement within 12 months shown under current liabilities	13,929
Amount due for settlement after 12 months shown under non-current liabilities	10,138

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	RMB HK$'000
As at 31 December 2019	9,570

30. OTHER BORROWINGS

	Note	2019 HK$'000	2018 HK$'000
Unsecured loan payable	(i)	11,132	–
Loan interest payable		464	–
		11,596	–

Note:

(i) The amount represented an unsecured borrowing from an independent third party bearing an interest rate of 10% per annum, the amount was repayable within one year.

31. CONVERTIBLE BOND

On 3 October 2017, the Company and China Huarong International Holdings Limited (the "subscriber" or "CB Holder") 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 the share capital or registered capital of certain subsidiaries of the Group and personal guarantee provided by Mr. Wang Liang, a director and a shareholder 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 matured on the date falling on the second anniversary of the Issue Date (i.e. 10 November 2019) subject to an automatic extension to the third anniversary of the Issue Date (i.e. 10 November 2020) 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 ended 30 June 2019 shall not be more than 40% of its total assets.

On 10 November 2019, condition (i) above had not been satisfied and the maturity date of the CB had not been extended to the third anniversary of the Issue Date. (i.e. 10 November 2020).

The initial conversion price is HK$1.968 per share (adjusted for the effect of share consolidation as disclosed in note 33), subject to anit-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.

In the situation where the CB is not redeemed on the Maturity Date, the conversion right attaching to the CB will revive and/ or will continue to be exercisable up to, and including, on the date upon which the full amount of the moneys payable in respect of the CB has been duly received by the CB Holder.

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 Holder 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 netting off the issuance cost of HK$2,561,000.

31. CONVERTIBLE BOND *(Continued)*

On initial recognition, the CB contains two components, debt component and derivative (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.

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 at the Redemption Amount of HK$219,461,000 has been classified as a current liability as at 31 December 2018.

During the year, the Group repaid principal and interest amounting to US$420,000 and US$1,915,000 (equivalent to HK$3,276,000 and HK$14,937,000) respectively. As at 31 December, 2019, the CB had been past due which is due for immediate payment.

As at 31 December 2019, the amount immediately payable by the Group, taken into account (a) outstanding principal, (b) interest accrued but unpaid, (c) additional interest to make up an internal rate of return of 10.0% on the aggregate principal amount of the outstanding CB and (d) default interest at a rate of 18% per annum, was approximately US$28,876,000 (equivalent to HK$225,236,000).

As at 31 December 2019, US$28.8 million (equivalent to HK$225,236,000) of the CB remained outstanding. Pursuant to the Company's announcement dated 15 January 2020 and 16 March 2020, the CB matured on 10 November 2019. The Company has received a letter from the CB Holder demanding repayment of the outstanding amount of the CB. The letter did not specify any deadline for repayment. As at the date of this report, no proceedings have been instituted or threatened to be instituted against the Company by the CB Holder, and all operations of the Group remain normal.

Subsequent to 31 December 2019, the Company repaid the CB principal and interest at amounts of US$6,000,000 and US$587,000 (equivalent to HK$46,800,000 and HK$4,580,000) respectively. As at the date of this report, US$20,580,000 (equivalent to HK$160,524,000) of the principal amount of the CB remained outstanding. Up to the date of this report, the Company has continued discussions with the CB Holder with regards to the repayment arrangement of the CB, including but not limited to, agreeing to a repayment schedule. The Company will disclose material developments on the above matter by way of further announcement(s) in accordance with the requirements of the Listing Rules.

31. CONVERTIBLE BOND *(Continued)*

The movement of the components of the convertible bond for the years ended 31 December 2019 and 2018 is set out below:

	2019 Debt component HK$'000	2019 Derivative component HK$'000	2019 Total HK$'000	2018 Debt component HK$'000	2018 Derivative component HK$'000	2018 Total HK$'000
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	(14,937)	–	(14,937)	(18,291)	–	(18,291)
Early redemption (including payment interest accrued)	–	–	–	(105,836)	–	(105,836)
Repayment of CB	(3,276)	–	(3,276)	–	–	–
Finance cost-interest charge	23,988	–	23,988	35,546	–	35,546
Loss on early redemption of CB	–	–	–	3,843	–	3,843
Change in fair value	–	(3,140)	(3,140)	–	1,313	1,313
Carrying amount at the end of the year	225,236	–	225,236	219,461	3,140	222,601
Classified as:						
Current liability	225,236	–		219,461	3,140	
Non-current liability	–	–		–	–	
	225,236	–		219,461	3,140	

32. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2018	56
Credited to profit or loss during the year	(14)
At 31 December 2018 and 1 January 2019	42
Credited to profit or loss during the year	(42)
At 31 December 2019	–

32. DEFERRED TAX LIABILITIES *(Continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in PRC in respect of earnings generated from 1 January 2008.

At 31 December 2019 and 2018, no deferred tax liabilities has been recognised for withholding taxes as the Group's subsidiaries established in PRC do not have any unremitted retained earnings as at 31 December 2019 and 2018.

The Group had tax losses arising in Hong Kong of HK$356,406,000 (2018: HK$368,941,000) (subject to agreement by the Inland Revenue Department) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in the PRC of HK$248,771,000 (2018: HK$222,836,000) that will expire in one to five years for offsetting against future taxable profits. No deferred tax assets have been recognised in respect of tax losses for the year ended 31 December 2019 (2018: Nil) as it is not considered probable that there would be sufficient future taxable profits to utilise such tax losses.

33. SHARE CAPITAL

	Number of shares		Share capital	
	2019	2018	**2019**	2018
	'000	'000	**HK$'000**	HK$'000
Ordinary share of HK$0.04 (2018: HK$0.01) each				
Authorised:				
At beginning of year	**50,000,000**	50,000,000	**500,000**	500,000
Share consolidation (note)	**(37,500,000)**	–	**–**	–
At end of year	**12,500,000**	50,000,000	**500,000**	500,000
Issued and fully paid:				
At beginning of year	**9,797,311**	9,797,311	**97,973**	97,973
Share consolidation (note)	**(7,347,983)**	–	**–**	–
At end of year	**2,449,328**	9,797,311	**97,973**	97,973

Note:

On 12 August 2019, the Company implemented the share consolidation ("Share Consolidation") on the basis that every four issued and unissued existing shares of a par value of HK$0.01 each in the share capital of the Company be consolidated into one consolidated ordinary share of HK$0.04 each.

34. RESERVES

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

(a) Share premium

The application of share premium account is governed by section 40 of the Companies Act 1981 of Bermuda.

(b) Capital reserve

The Group's capital reserve represents the deemed capital contribution from the then controlling shareholder pursuant to the reorganisation in 2012.

(c) Contributed surplus

The contributed surplus of the Group represents the capital contributions from the equity holders of the subsidiaries now comprising the Group before the completion of the reorganisation in 2012 and the par value of the Company's shares issued to the then controlling shareholder for the acquisition of a subsidiary pursuant to the reorganisation.

(d) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire after the vesting period.

35. 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 on 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.

35. SHARE OPTION SCHEME *(Continued)*

Share options granted to a director or substantial shareholder of the Company, or to any of their associate, 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 associate, 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.

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 adjusted exercise price of HK$0.48 per share (adjusted for the effect of Share Consolidation as disclosed in note 33). As at date of this annual report, an aggregate of 91,190,000 shares may be issued upon full exercise of all vested and unvested share options granted under the Scheme, out of which 30,738,750 shares are immediately issuable, representing approximately 1.13% of the total number of issued shares as at the date of this annual report, and 60,451,250 shares are issuable upon vesting and full exercise of share options. The options holders should be remained as eligible participants throughout the vesting period. Movements of the options, which were granted under the Scheme and the effect of Share Consolidation, during the year were listed below:

Date of grant	Exercise price* HK$	Exercisable period	Number of options outstanding at 1 January 2018	Lapsed/ cancelled during the year	Number of options outstanding at 31 December 2018	Adjustment on share consolidation	Lapsed/ cancelled during the year	Number of options outstanding at 31 December 2019
25/01/2017	1.34	02/07/2018 to 01/07/2022	24,027,500	(2,425,000)	21,602,500	(16,201,875)	(1,953,125)	3,447,500
25/01/2017	1.34	02/07/2019 to 01/07/2022	24,027,500	(2,425,000)	21,602,500	(16,201,875)	(1,953,125)	3,447,500
25/01/2017	1.34	02/07/2020 to 01/07/2022	24,027,500	(2,425,000)	21,602,500	(16,201,875)	(1,953,125)	3,447,500
25/01/2017	1.34	02/07/2021 to 01/07/2022	24,027,500	(2,425,000)	21,602,500	(16,201,875)	(1,953,125)	3,447,500
			96,110,000	(9,700,000)	86,410,000	(64,807,500)	(7,812,500)	13,790,000

The above options were vested on 2 July 2018. As at 31 December 2019, 6,895,000 (2018: 3,447,500) shares options were exercisable.

35. SHARE OPTION SCHEME *(Continued)*

Date of grant	Exercise price* HK$	Exercisable period	Number of options outstanding at 1 January 2018	Lapsed/ cancelled during the year	Number of options outstanding at 31 December 2018	Adjustment on share consolidation	Lapsed/ cancelled during the year	Number of options outstanding at 31 December 2019
12/12/2017	1.34	10/06/2019 to 09/06/2023	24,412,500	(675,000)	23,737,500	(17,803,125)	(78,125)	5,856,250
12/12/2017	1.34	10/06/2020 to 09/06/2023	24,412,500	(675,000)	23,737,500	(17,803,125)	(78,125)	5,856,250
12/12/2017	1.34	10/06/2021 to 09/06/2023	24,412,500	(675,000)	23,737,500	(17,803,125)	(78,125)	5,856,250
12/12/2017	1.34	10/06/2022 to 09/06/2023	24,412,500	(675,000)	23,737,500	(17,803,125)	(78,125)	5,856,250
			97,650,000	(2,700,000)	94,950,000	(71,212,500)	(312,500)	23,425,000

The above options were vested on 10 June 2019. As at 31 December 2019, 5,856,250 (2018: Nil) share options were exercisable.

Date of grant	Exercise price* HK$	Exercisable period	Number of options outstanding at 1 January 2019	Granted during the year	Adjustment on share consolidation	Lapsed/ cancelled during the year	Number of options outstanding at 31 December 2019
21/02/2019	0.48	21/02/2020 to 20/02/2024	–	168,000,000	(126,000,000)	(24,000,000)	18,000,000
21/02/2019	0.48	21/02/2021 to 20/02/2024	–	168,000,000	(126,000,000)	(24,000,000)	18,000,000
21/02/2019	0.48	21/02/2022 to 20/02/2024	–	168,000,000	(126,000,000)	(24,000,000)	18,000,000
			–	504,000,000	(378,000,000)	(72,000,000)	54,000,000

The above options will be vested on 21 February 2020.

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 (the "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$1.14*	HK$1.22*	HK$0.42*
Exercise price	HK$1.34*	HK$1.34*	HK$0.48*
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$0.572* to HK$0.612*	HK$0.716* to HK$0.744*	HK$0.216* to HK$0.22*

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 year ended 31 December 2019, the Group recognised an expense of HK$15,135,000 (2018: HK$15,870,000) as equity-settled share based payments in the consolidated statement of profit or loss with reference to their respective vesting period.

* The price has been adjusted for the effect of Share Consolidation as disclosed in note 33.

36. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Save as disclosed elsewhere in the consolidated financial statements, the following transactions with related parties took place during the year:

(a) Key management compensation

During both years, compensation of key management personnel represents directors' remuneration and those of senior staff as stated in notes 9 and 10 respectively.

(b) Other related party transactions

		Transaction amount	
		2019	2018
Relationship	**Type of transaction**	**HK$'000**	HK$'000
A company controlled by a director and a shareholder of the Company	Purchase of goods	**–**	654

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.

(c) Outstanding balance

The following balances are outstanding at the end of the reporting period in relation to transactions with a related party:

	2019	2018
	HK$'000	HK$'000
Current trade payables		
A company controlled by a director and a shareholder of the Company	**1,086**	1,099

37. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office premises, manufacturing plants and car parks under operating lease arrangements. The leases for the office premises are negotiated for a term of two to three years, and those for the manufacturing plants and car parks are negotiated for a term of one year.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2019 HK$'000	2018 HK$'000
Within one year	476	10,631
In the second to fifth years, inclusive	–	7,287
	476	17,918

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for:		
Property, plant and equipment	41	300

39. FINANCIAL INSTRUMENTS BY CATEGORY AND FAIR VALUE OF FINANCIAL INSTRUMENTS

As at 31 December 2019 and 2018, except for financial assets at fair value through profit or loss as set out in note 19, financial assets of the Company and the Group are measured at amortised cost.

As at 31 December 2019 and 2018, except for derivative embedded in the CB as set out in note 31, financial liabilities of the Company and the Group are measured at amortised cost.

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, note receivable, trade payables, loan and interest receivables, other borrowings, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and convertible bonds, approximate to their carrying amounts largely due to the short term maturities of these 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.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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 as at 31 December 2019 and 2018 classified as financial assets at fair value through profit or loss are based on quoted market prices as at 31 December 2019 and 2018.

The fair value of the one (2018: one) of the unlisted equity securities without an active market classified in Level 3 amounting to HK$37,360,000 (2018: HK$34,521,000) was determined by the management based on the valuation from an independent professional qualified valuer. The fair value of another one (2018: one) of the unlisted equity securities amounting to HK$59,275,000 (2018: HK$54,383,000) was determined by the directors of the Company. The fair value of above two (2018: two) unlisted equity securities are estimated by a number of significant unobservable inputs including the market value of invested capital-to-total assets multiple, price-to-net assets multiple and adjustment for a lack of marketability associated with the investments.

The fair values of the remaining unlisted equity securities were determined by the directors. The fair value of such securities is estimated on the basis of an analysis of the investee's financial position and results, risk profile and prospects and other factors.

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.

Fair value hierarchy

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

As at 31 December 2019

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets at fair value through profit or loss:				
Listed equity instruments	158,825	–	–	158,825
Unlisted equity instruments	–	–	249,002	249,002

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

Fair value hierarchy *(Continued)*

As at 31 December 2018

Assets measured at fair value:

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

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 31 December 2019 and 2018:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Unlisted equity instruments	Adjusted net asset value	The fair value of net assets of the investee	N/A (2018: N/A)	1% increase in fair value of net assets would result in increase fair value by HK$1,524,000 (2018: 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	0.4 to 0.41 (2018: 0.35 to 0.45)	1% increase in market value of invested capital-to-total asset multiple would result in increase fair value by HK$650,000 (2018: 560,000)
		Price-to-net assets multiple	0.36 to 0.47 (2018: 0.42 to 0.45)	1% increase in price-to-net assets multiple would result in increase fair value by HK$429,000 (2018: 481,000)
		Lack of marketability discount	10% to 25% (2018: 10% to 20%)	1% increase in lack of marketability discount would result in decrease fair value by HK$190,000 (2018: 146,000)
Derivative embedded in the CB	Binomial tree option pricing model	Risk free rate	1.57% (2018: 2.56%)	1% increase in risk-free rate would result in decrease in fair value by HK$Nil* (2018: Nil)
		Expected volatility	96.72% (2018: 106.38%)	10% increase in volatility would result in increase in fair value by HK$Nil* (2018: Nil*)

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

40. 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
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)
At 31 December 2018 and 1 January 2019	243,009	(3,140)
Acquisitions	48,960	–
Disposals	–	–
Net (loss)/gain from fair value adjustment recognised in profit or loss	(42,967)	3,140
At 31 December 2019	249,002	–

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: None).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include cash and cash equivalents, trade and bills receivables, deposits and other receivables, financial assets at fair value through profit or loss, note receivable, loan and interest receivables, other borrowings, convertible bond, trade payables and other payables and accruals. Details of the major financial instruments and the Group's relevant accounting policies are disclosed in note 2 to the financial statements.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, liquidity risk, equity price risk and interest rate risk. The directors review and agree policies for managing each of these risks and they are summarised below.

(a) Foreign currency risk

The Group operates in both Hong Kong and the PRC and sells its products internationally. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily through cash and bank balances arising from sales and purchases, deposits, trade and other receivables, trade and other payables and convertible bonds that are denominated in a currency other than the functional currency of the operations in which they relate. The currencies giving rise to this risk are primarily US$, Swiss Franc ("CHF") and RMB.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of RMB. The appreciation or depreciation of RMB against HK$ may have impact on the operating results of the Group. The Group's exposure to currency risk arising from US$ against HK$ is considered by the directors as insignificant since HK$ is pledged to US$.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) Foreign currency risk *(Continued)*

There are limited hedging instruments available to the Group to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. The Group may decide to enter into hedging transactions in the future and management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity to a reasonably possible changes in the exchange rates, with all other variables held constant, of the Group's profit after tax.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit for the year HK$'000
2019		
If HK$ weakens against RMB	**3**	**(17)**
If HK$ strengthens against RMB	**(3)**	**17**
If HK$ weakens against USD	**3**	**423**
If HK$ strengthens against USD	**(3)**	**(423)**
2018		
If HK$ weakens against RMB	3	2
If HK$ strengthens against RMB	(3)	(2)
If HK$ weakens against USD	3	692
If HK$ strengthens against USD	(3)	(692)

(b) Credit risk

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and bills receivables, restricted bank deposits, bank balances, other receivables, loan and interest receivables and note receivable. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the settlement of certain trade receivables is backed by bills issued by reputable financial institutions. The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade and other receivable balances are monitored on an ongoing basis to ensure that follow-up action is taken to recover overdue debts and the Group's exposure to bad debts is not significant. The Group's maximum exposures to credit risk are the carrying amounts of trade and bills receivables, as disclosed in note 22 to the consolidated financial statements. In addition, the Group reviews the recoverable amount of each individual debtor at the end of the reporting period to ensure that adequate impairment losses have been made for irrecoverable amounts.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

Credit risk arising from trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of reporting period, 14% (2018: 12%) and 45% (2018: 43%) of the total trade and bills receivable were due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade and bills 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 and bills receivables as at 31 December 2019 and 2018:

	2019			2018		
	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current (not past due)	4%	41,475	682	1%	42,902	56
1–30 days past due	8%	5,866	116	2%	12,725	41
31–180 days past due	12%	8,449	428	2%	2,787	4
More than 180 days past due	13%	226	27	26%	4,731	1,240
More than 365 days past due	100%	2,839	2,839	100%	–	–
		58,855	4,092		63,145	1,341

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 historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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

	HK$'000
Balance at 1 January 2018	–
Impairment losses recognised during the year	2,016
Amounts written off during the year	(675)
Balance at 31 December 2018	1,341
Impairment losses recognised during the year	3,210
Amounts written off during the year	(459)
Balance at 31 December 2019	4,092

The Group has concluded that there is no significant changes in the gross carrying amounts of trade and bills receivables contributed to the increase in loss allowance during 2019 and 2018.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk *(Continued)*

Credit risk arising from note receivable

As at 31 December 2018, note receivable measured at amortised cost, and as the credit risk had not increased significantly since initial recognition, the loss allowance recognised during the year ended 31 December 2018 was therefore limited to 12 months expected losses. Management considered 'low credit risk' for note receivable when there was a low risk of default and the issuer had a strong capacity to meet its contractual cash flow obligations in the near term, and therefore no expected credit loss on note receivable was recognised in the consolidated profit or loss during the year ended 31 December 2018.

During the year ended 31 December 2019, the note receivable was fully repaid.

Credit risk arising from restricted bank deposits and bank balances

Credit risk on restricted bank deposits and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. Therefore, the ECL on restricted bank deposits and bank balances is considered to be insignificant.

Credit risk arising from loan and interest receivables

The directors of the Company regularly review and assess the credit quality of the counterparties. The Group uses lifetime ECL to assess the loss allowance of loan and interest receivables. Since these receivables are not past due, and there has no historical default record, the directors consider that the Group's credit risk in not significant after considering the financial background and condition of the counterparties. Accordingly, the directors of the Company consider the ECL for loan and interest receivables is insignificant. The loan and interest receivables were fully repaid subsequent to 31 December 2019.

(c) Liquidity risk

The Group managed the risk by matching the raising of loans or equity funding to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

As at 31 December 2018, the Group has breached certain financial covenants of the CB as disclosed in note 31 such that the CB Holder has the right to serve written notice to the Company to demand immediate repayment of the CB within 3 months from the date of the notice served. The analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the CB Holder was to invoke their right to request immediate repayment.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities and lease liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Weighted average interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total HK$'000	Carrying amount HK$'000
At 31 December 2019					
Trade payables	–	32,154	–	32,154	32,154
Other payables and accruals	–	22,612	–	22,612	22,612
Lease liabilities	4.84%	14,792	10,403	25,195	24,067
Convertible bond	14.62%	225,236	–	225,236	225,236
Other borrowings	10%	11,596	–	11,596	11,596
		306,390	10,403	316,793	315,665

	Weighted average interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	Total HK$'000	Carrying amount HK$'000
At 31 December 2018					
Trade payables		42,121	–	42,121	42,121
Other payables and accruals		17,883	–	17,883	17,883
Convertible bond (note (i))	13.08%	219,461	–	219,461	219,461
		279,465	–	279,465	279,465

Note:

(i) The contractual undiscounted payment of the CB as at 31 December 2018 represented the Redemption Amount if the CB Holder invokes its right to request immediate repayment.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Liquidity risk *(Continued)*

The amounts disclosed in the table are the contractual undiscounted cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

Although the Group has a considerable amount of financial liabilities to be settled within the next twelve month from the end of the reporting period, the directors of the Company are of the view that the Group can manage the associated liquidity risks taking into account the financial resources and the Group's cash flow projections.

During the year, in respect of the CB, the Group has failed to repay the CB at maturity and the CB is due for immediate payment and bear a default interest at a rate of 18% per annum. As at 31 December 2019, the carrying amount of CB (including outstanding principal and interests) was HK$225,236,000 as detailed in note 31. As disclosed in note 1(b), in order to improve the Group's financial position, immediate liquidity and cash flows, the directors of the Company have adopted several measures together with other measures in progress at the date when the consolidated financial statements are authorised for issue. The directors are of opinion that the Group has sufficient financial resources to manage the associated liquidity risk.

(d) Equity price risk

Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as financial assets at fair value through profit or loss (note 19) for both years.

The Group's listed equity investments are listed on the Stock Exchange and are valued at quoted market prices at the end of the reporting period.

All of the Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the Group. As at the end of the reporting period the Group is exposed to this risk through the conversion rights attached to the convertible bond issued by the Company as disclosed in note 31.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Equity price risk *(Continued)*

The market equity index for the Stock Exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	31 December 2019	High/low 2019	1 January 2019
Hong Kong — Hang Seng Index	28,190	30,280/24,897	25,846

The Group manages its exposure by closely monitoring the price movements and the changes in market conditions that may affect the value of these equity investments.

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, excluding financial assets at fair value through profit or loss (not held for trading) as at 31 December 2019 and 2018 with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

Sensitivity analysis of equity securities with fair value measured categorised within Level 3 were disclosed in note 40.

	Carrying amount of financial investments HK$'000	Increase/ (decrease) in price %	Increase/ (decrease) in profit after tax and retained profit HK$'000	Increase/ (decrease) in other components of equity HK$'000
2019				
Equity securities listed in Hong Kong:				
Held-for-trading	**158,825**	**21.62%**	**28,672**	**–**
Held-for-trading	**158,825**	**(21.62%)**	**(28,672)**	**–**
2018				
Equity securities listed in Hong Kong:				
Held-for-trading	24,250	36.44%	7,379	–
Held-for-trading	24,250	(36.44%)	(7,379)	–

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate cash at bank. The Group's cash flow interest rate results mainly from the fluctuations of market interest rates. The directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances and restricted deposits is insignificant. The Group is exposed to fair value interest rate risk in relation to fixed-rate loan and interest receivables, lease liabilities, other borrowings and convertible bond. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Total interest income from financial assets that are measure at amortised cost is as follows:

	2019 HK$'000	2018 HK$'000
Interest income		
Financial assets at amortised cost	**10,900**	11,487

Interest expense on financial liabilities not measured at FVTPL:

	2019 HK$'000	2018 HK$'000
Interest expense		
Financial liabilities at amortised cost	**25,988**	41,807

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(f) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders, to procure adequate financial resources from shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a net debt-to-adjusted capital ratio, which is net debt divided, by adjusted capital. Net debt includes trade payables, other payables and accruals, other borrowings, lease liabilities and convertible bond, less cash and cash equivalents and excludes assets of a disposal group classified as held for sale and liabilities directly associated with the assets classified as held for sale. Adjusted capital includes equity attributable to owners of the parent and net debt. The net debt-to-adjusted capital ratios as at the end of the reporting periods were as follows:

	Group	
	2019	2018
	HK$'000	HK$'000
Trade payables	**32,154**	42,121
Other payables and accruals	**22,612**	17,883
Convertible bond	**225,236**	219,461
Lease liabilities	**24,067**	–
Other borrowings	**11,596**	–
Less: Cash and cash equivalents	**(40,457)**	(97,513)
Net debt	**275,208**	181,952
Equity attributable to owners of the parent	**541,205**	726,792
Adjusted capital	**265,997**	544,840
Net debt-to-adjusted capital ratio	**1.03**	0.33

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Investments in subsidiaries	(a)	**47,890**	47,890
Current assets			
Prepayments and other receivables		**175**	633
Amounts due from subsidiaries	(a)	**631,233**	843,190
Cash and cash equivalents		**187**	26,756
Total current assets		**631,595**	870,579
Current liabilities			
Other payables and accruals		**1,105**	612
Derivative under convertible bond		**–**	3,141
Convertible bond		**225,236**	219,461
Amounts due to subsidiaries		**2**	2
Total current liabilities		**226,343**	223,216
Net current assets		**405,252**	647,363
Net assets		**453,142**	695,253
Equity			
Issued capital		**97,973**	97,973
Reserves	(b)	**355,169**	597,280
Total equity		**453,142**	695,253

Wang Liang
Director

Du Dong
Director

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) During the year ended 31 December 2019, an impairment loss on amounts due from subsidiaries of HK$211,957,000 (2018: an impairment loss on investments in subsidiaries of HK$175,999,000 and an impairment loss on amounts due from subsidiaries of HK$26,281,000) was recognised in view of the decrease in the net assets value of subsidiaries and operating loss of the subsidiaries.

(b) A summary of the Company's reserves is as follows:

	Share premium account HK$'000 (note 34(a))	Contributed surplus HK$'000 (note 34(c))	Share option reserve HK$'000 (note 34(d))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	1,769,428	13,387	10,006	(937,562)	855,259
Total comprehensive loss for the year	–	–	–	(273,849)	(273,849)
Equity settled share-based transactions	–	–	15,870	–	15,870
Share option lapsed	–	–	(665)	665	–
At 31 December 2018 and 1 January 2019	1,769,428	13,387	25,211	(1,210,746)	597,280
Total comprehensive loss for the year	–	–	–	(257,246)	(257,246)
Equity settled share-based transactions	–	–	15,135	–	15,135
Share option lapsed	–	–	(4,782)	4,782	–
At 31 December 2019	1,769,428	13,387	35,564	(1,463,210)	355,169

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation on 29 December 2011 over the previous nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus in certain circumstances.

43. EVENTS AFTER THE REPORTING PERIOD

(a) Pursuant to announcement of the Company dated 6 January 2020, the Company entered into a scale-up program and license agreement with Triton Algae Innovations, Ltd. ("Triton") in respect of granting to the Group a non-exclusive license to the Triton Acetate Process and Triton Green Strain and for the Group to conduct a pilot production and scale-up manufacturing program.

(b) On 21 February 2020, the Company and the People's Government of Wucheng District Changzhi City, Shanxi Province (the "Wucheng District Changzhi City") entered into a chlamydomonas reinhardtii construction plant project co-operation agreement (the "Agreement"). Under the Agreement, the Company and the Wucheng District Changzhi City would co-operate in the construction of manufacturing facilities for chlamydomonas reinhardtii and related products.

(c) On 13 March 2020, the Company entered into an agreement ("Subscription Agreement") with an independent third party, Tian Yuze (田宇澤), in relation to the subscription for 135,135,135 new shares ("Subscription Shares") of the Company at HK$0.37 per share. The gross proceeds and net proceeds from the subscription are HK$50,000,000 and HK$49,876,000 respectively. The Subscription Agreement has been completed as at the date of this report.

(d) On 17 March 2020, Galaxy Vantage Limited ("Galaxy Vantage"), an indirect wholly-owned subsidiary of the Company entered into an acquisition and subscription agreement (the "Acquisition and Subscription Agreement") with an independent third party, Mr. David Ki (the "Vendor"), pursuant to which (i) Galaxy Vantage conditionally agreed to purchase, and the Vendor conditionally agreed to sell his 100% equity interests in Hope Capital Limited at the consideration of HK$41,000,000, which will be satisfied by 13,513 subscription shares of Galaxy Vantage upon completion; and (ii) upon completion, the Vendor will be granted an option to subscribe up to 30% (inclusive of the subscription shares) of the issued share capital of Galaxy Vantage (the "Option") as at the time of the exercise of the Option as enlarged by the issuance of such new shares under the Option. Upon completion, Hope Capital Limited will become an indirect non-wholly owned subsidiary of the Company. The Acquisition and Subscription Agreement has not yet been completed as at the date of this report.

(e) On 14 April 2020, the Company entered into a share subscription agreement with an independent third party, Ngai Shun (蟻純), in relation to the subscription for 135,135,135 new shares of the Company at HK$0.37 per share. The gross proceeds and net proceeds from the subscription are HK$50,000,000 and HK$49,976,000 respectively. The subscription agreement has been completed as at the date of this report.

44. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2019 are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal Activities
Apex Capital Business Limited	BVI	Ordinary US$100	100 (2018: 100)	–	Investment holding
Era Bright Limited	Hong Kong	Ordinary HK$13,026,817	–	76.92 (2018:100)	Money lending
Genius Spring Limited	BVI/Hong Kong	Ordinary US$999	–	90.1 (2018: 90.1)	Securities investment and trading
Qualipak Development Limited	BVI	Ordinary US$10,000	100 (2018: 100)	–	Investment holding
Qualipak Manufacturing Limited	Hong Kong	Ordinary HK$100 Non-voting deferred HK$22,303,857^	–	100 (2018: 100)	Manufacture and sale of watch boxes, jewellery boxes, eyewear cases, bags and pouches and display units
Joy Forever Limited	Hong Kong	Ordinary HK$1	–	100 (2018: 100)	Provision of corporate management services
Shanghai TY Technology Co. Ltd. *# (上海透雲物聯網科技有限公司)	PRC	Registered RMB600,000,000 and paid up RMB302,451,020 (2018: Registered RMB600,000,000 and paid-up RMB300,691,800)	–	100 (2018: 100)	Provision of QR codes on product packaging and business intelligence IT solutions, and online advertising display services
TY Technology (Beijing) Co., Ltd.* 透雲物聯網科技 (北京)有限公司) (previously known as Sigmatrix Technology Co., Ltd* (信碼互通(北京)科技有限公司))	PRC	Registered and paid-up RMB62,000,000 (2018: 50,000,000)	–	100 (2018: 100)	Provision of QR codes on product packaging
Victor Choice Global Limited	BVI	Ordinary US$100	–	100 (2018: 100)	Investment holding

Notes:

- # Registered as a wholly-owned foreign enterprise under the PRC law
- * Direct translation from the Chinese name which is for identification purposes only
- ^ The non-voting deferred shares have restricted rights on the distribution of profits, capital and voting

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

45. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 April 2020.

FIVE-YEAR FINANCIAL SUMMARY

31 December 2019

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below.

RESULTS

The summary of the consolidated results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, has been extracted from the published audited financial statements.

	Years ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from sales of goods and services rendered	**329,979**	349,630	397,447	317,746	283,865
Revenue from treasury investment					
Fair value gains/(losses) on financial assets at fair value through profit or loss held for trading, net	**10,074**	(1,307)	(80,248)	(361,874)	–
Interest income from money lending business	**1,250**	–	–	4,837	1,646
Dividend income from financial assets at FVTPL held for trading	**1,393**	447	500	–	246
Interest income from convertible notes	**–**	–	–	1,668	210
(Loss)/profit before tax	**(194,896)**	(251,974)	(248,987)	(1,107,838)	256,263
Income tax	**(4,213)**	(1,989)	(4,229)	(26)	(1,060)
(Loss)/profit for the year	**(199,109)**	(253,963)	(253,216)	(1,107,864)	255,203
Loss for the year from discontinued operations:	**–**	–	–	(55,959)	–
(Loss)/profit for the year	**(199,109)**	(253,963)	(253,216)	(1,163,823)	255,203
Attributable to:					
Owners of the Company	**(200,513)**	(253,877)	(245,226)	(1,150,825)	255,259
Non-controlling interests	**1,404**	(86)	(7,990)	(12,998)	(56)
	(199,109)	(253,963)	(253,216)	(1,163,823)	255,203

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**886,401**	1,043,704	1,348,425	1,266,945	1,014,804
Total liabilities	**(341,834)**	(316,456)	(390,541)	(73,533)	(235,694)
Non-controlling interests	**(3,362)**	(456)	(542)	(8,493)	–
	541,205	726,792	957,342	1,184,919	779,110

The summary of the consolidated results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, has been extracted from the published audited financial statements.