HNA TECH INV
海航科技投資

HNA TECHNOLOGY INVESTMENTS HOLDINGS LIMITED
海航科技投資控股有限公司
(incorporated in the Cayman Islands with limited liability)
Stock code: 2086

ANNUAL REPORT 2018

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. Cui Yijun *(Chairman)*
(appointed on 10 May 2018)
Mr. Zheng Xuedong *(Chief Executive Officer)*
(appointed on 10 May 2018)
Mr. Tong Fu
Mr. Zhang Tao
Mr. Wong Chi Ho
Mr. Peng Fang *(resigned on 10 May 2018)*
Mr. Wang Hao *(resigned on 31 July 2018)*

Independent Non-executive Directors
Mr. Guo Dan
Dr. Lin Tat Pang
Ms. O Wai *(appointed on 15 March 2019)*
Ms. Kaung Cheng Xi Dawn
(resigned on 31 December 2018)

AUTHORISED REPRESENTATIVES

Mr. Wong Chi Ho
Ms. Lee Ka Man, ACS, ACIS

COMPANY SECRETARY

Ms. Lee Ka Man, ACS, ACIS

AUDIT COMMITTEE

Dr. Lin Tat Pang *(Chairman)*
Mr. Guo Dan
Ms. O Wai

REMUNERATION COMMITTEE

Dr. Lin Tat Pang *(Chairman)*
Mr. Guo Dan
Mr. Zheng Xuedong

NOMINATION COMMITTEE

Mr. Guo Dan *(Chairman)*
Dr. Lin Tat Pang
Mr. Wong Chi Ho

AUDITOR

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

REGISTERED OFFICE

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Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 4108-4110, 41st Floor
Manhattan Place, 23 Wang Tai Road
Kowloon Bay
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE ADDRESS

www.hnatechinv.com

STOCK CODE

2086

CHAIRMAN'S STATEMENT

On behalf of HNA Technology Investments Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I hereby present the Group's annual results for the year ended 31 December 2018.

Founded in 1995, the Group is one of the world's leading smart card reader suppliers and has been devoted to the research and development of smart card operating system and reader. The Group constantly offers a wide range of new products and promotes the application of smart cards in different areas. Our strong capabilities and outstanding achievements continued to be recognised, as evidenced by receiving *Asia's Most Innovative Smart Card Solutions of the Year in the Leaders of Innovation 2019.*

During the year, we continued to face headwinds of more intense competition and trade conflicts among big economic powerhouses especially between the People's Republic of China ("PRC") and the United States of America ("U.S."), as the U.S. government continued to impose tariffs on Chinese goods. That led to a decrease in purchase of our products by our distributors in the U.S. to avoid paying an extra 10% tariff on goods imported from the Group. As a result, there was a decline in our Group's financial performance during the year, as shown by the drop in both revenue and gross profit this year. Revenue for the year was approximately HK$137.7 million; gross profit was approximately HK$74.4 million, and gross profit margin stood at 54%. Loss attributable to the owners of the Company amounted to approximately HK$23.5 million.

We are keen to change the present and shape the future as cashless society with high mobility and convenience. We will apply innovative ideas on information and communications technology and big data analytics, to connect and integrate the systems and services of the city for better synergy and more efficient use of resources in view of cities management, service delivery as well as quality of life of citizens, and at the same time reducing environmental footprint to support the development of innovation and low-carbon economy.

Going forward, we intend to expand our market share and strive to provide better products and services, such as enhancement of features on existing products, as well as developing potential new products. We are optimistic about the electronic fund transfer at point-of-sale ("EFT-POS") terminal market. EFT-POS refers to the use of payment terminals to validate and facilitate credit or debit card transactions. As one of our moves to enhance market presence and pave the way for future business development, we remain active in industry activities during the year. We participated in two major events, namely *Securing Federal Identity 2018* in Washington D.C., the U.S. and Trustech 2018 in Cannes, France, where we showcased our new e-government readers and payment products.

Last but not least, I would like to take this opportunity to extend my utmost gratitude to our valuable shareholders, customers and business partners for their continued trust to the Group. I look forward to working with our dedicated management and staff to achieve brilliant results in the future.

Cui Yijun
Chairman

27 March 2019

FINANCIAL REVIEW

For the year ended 31 December 2018, the Group's revenue decreased by 24% to HK$137.7 million (2017: HK$182.3 million); gross profit was HK$74.4 million (2017: HK$103.8 million) with a gross profit margin of 54% (2017: 57%). Loss for the year was HK$23.5 million (2017: profit for the year of HK$5.7 million). Basic loss per share for the year was HK7.339 cents (2017: basic earnings per share of HK1.780 cents).

Revenue

The Group's revenue for the year ended 31 December 2018 decreased by 24% compared to the previous year, which was mainly attributable to the below reasons:

1. Due to the project-based nature of the business, some large-scale projects for existing customers, mainly related to new equipment and systems installation, were completed in 2017, resulting in a decrease in demand from those customers in 2018. New projects in 2018 are generally not comparable in scale to the aforementioned completed projects in 2017.

2. PRC and the U.S. have been engaged in trade conflicts since 2018 as the U.S. government continued to impose tariffs on Chinese goods. As a result, our distributors in the U.S. reduced the purchase and import of goods from us to ward off paying an extra 10% tariff. Hence, our revenue in relation to projects in the U.S. dropped this year.

3. The financial and economic turmoil in Turkey in 2018 saw a sharp depreciation in the currency of Turkey, Turkish Lira, which led to a high inflation and rising borrowing costs. A lot of local government spending on identity related projects have been suspended or terminated. Hence, our revenue in relation to identity related projects in Turkey also dropped this year.

For the Group's financial services and investment segment, having taken into consideration of the increasing macro-economic uncertainties, we decided to shrink the financial services and investment business since early 2018. As a result, the Group did not recognise any revenue, and incurred a loss for this segment in 2018.

Gross Profit Margin

Gross profit margin for the year ended 31 December 2018 was 54% (2017: 57%). The squeeze in gross profit margin was mainly due to the lack of any revenue derived from financial services and investment segment in 2018 (2017: gross profit margin of 95%). However, financial technology and smart living segment maintained a healthy gross profit margin level, which increased from 53% in 2017 to 54% in 2018.

FINANCIAL REVIEW *(continued)*

Operating Expenses

Total operating expenses decreased slightly by 0.1%, from HK$98.4 million in 2017 to HK$98.3 million in 2018.

For the financial technology and smart living business, total operating expenses decreased by 6%, from HK$77.4 million in 2017 to HK$72.8 million in 2018. The decrease in expenses was mainly attributable to the below reasons:

1. Advertising and promotion costs decreased by HK$1.8 million, as we further optimised our advertising and promotion efforts this year for the purpose of costs saving.

2. Impairment loss on trade and other receivables decreased by HK$2.8 million as less expected credit loss ("ECL") were noted in current year.

Total expenses for financial services and investment business increased by 69%, from HK$9.5 million in 2017 to HK$16.1 million in 2018, which was mainly due to the below reasons:

1. Increase in staff costs of HK$5.5 million, as most staff for this segment was newly recruited in the last quarter of 2017 so fewer months of staff costs were incurred in 2017.

2. At 31 December 2018, the Group had a trade receivable due from a fellow subsidiary of HK$14.8 million which had been overdue for more than 1 year. As of the date of this annual report, HK$4 million in total was received from the fellow subsidiary as partial settlement of this amount (including HK$1.2 million received prior to year-end). Management understand that the fellow subsidiary is currently contemplating certain asset disposals in the first half of 2019 and if completed, the proceeds from these asset disposals could be used to repay, inter alia, the outstanding amount due to the Group. However, the timing of these asset disposals is not certain and the fellow subsidiary also carries debts due to other external parties which may have higher priority than the amount due to the Group.

   Upon evaluating the uncertainties pertaining to the amount due from the fellow subsidiary, the Group recorded a provision of ECL of HK$4 million based on its estimated probability-weighted outcome and reasonable and supportable information that is available.

3. The increase was offset by decrease in other operating expenses of HK$2.9 million mainly due to more professional costs were spent in 2017 for the initial establishment of the financial services and investment business so less such costs were spent in current year.

Head office and corporate expenses decreased by 18%, from HK$11.5 million in 2017 to HK$9.4 million in 2018, which was mainly due to the incurrence of legal and professional fee related to shares acquisition, change of company names and continuing connected transaction in 2017 while no such fee was incurred in 2018.

FINANCIAL REVIEW *(continued)*

Statement of Financial Position

Intangible assets decreased by 7%, from HK$47.0 million in 2017 to HK$43.7 million in 2018, as additions of HK$7.7 million were offset by higher amounts of amortisation and impairment of total HK$11.0 million during 2018.

Trade receivables decreased by 27%, from HK$47.8 million at 31 December 2017 to HK$34.7 million at 31 December 2018. Part of the reason for the decrease was impairment loss allowances being made on certain trade receivables amounted to HK$4.4 million in 2018. Excluding this factor, trade receivables decreased by 18%, which was consistent with the decline in revenue during the year.

Other receivables decreased by 46%, from HK$9.9 million at 31 December 2017 to HK$5.3 million at 31 December 2018, which was mainly due to the larger amount of deposits paid to suppliers offset with trade payables upon receipt of suppliers' invoices, compared to 2017.

Other payables increased by 25%, from HK$13.1 million at 31 December 2017 to HK$16.4 million at 31 December 2018, which was mainly due to more receipt in advance received from customers at the end of 2018 compared to 2017.

DIVIDEND

The board of directors of the Company (the "Board") did not recommend payment of the final dividend for the year ended 31 December 2018 (2017: Nil).

Dividend Policy

The Company has adopted a dividend policy on 19 December 2018. According to the dividend policy, in considering any dividend payout, the Board shall take into account, inter-alia, the following factors:

- the Group's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the Group's expected working capital requirements and future expansion plans;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and
- any other factors that the Board deem appropriate.

DIVIDEND *(continued)*

Dividend Policy *(continued)*

Declaration, recommendation and/or payment of dividends of the Company shall be determined at the absolute discretion of the Board and would be in the best interests of the Group and the shareholders and in compliance with all applicable laws and regulations. The Board endeavors to maintain a balance between meeting the shareholders' expectations and prudent capital management with a sustainable dividend policy. The Board will continually review the dividend policy and reserves the right in its absolute discretion to update, amend, modify and/or cancel the dividend policy at any time.

BUSINESS REVIEW

In 2018, hindered by an unfavorable macro-economic environment and the tussle between PRC and the U.S., we have been experiencing more volatile trade conditions or currency movements and economic downturns in some of our core market geographies. However, capitalising our innovative technology and excellence in pursuing products and services, and by quickly adapting to new environment through adjusting our services and market strategies we are confident to cope with the imminent economic challenges.

Financial Technology and Smart Living

Financial technology and smart living segment mainly included smart card and related products business. The Group kept making significant progress with its Automatic Fare Collection ("AFC") business, and we were selected for various AFC projects in the U.S., Republic of Fiji ("Fiji") and the Republic of the Philippines.

Given our solid business foundation, the financial technology and smart living operation continued to record a profit in 2018. During the year, the Group actively explored new market opportunities of end-to-end solutions and boosted efficiency. Following the success of AFC project for public transport in Fiji in 2017, we were requested to provide 10 units of Ticket Vending Machines, which provide the benefits of offloading disposable card sales with more sales channels, automate repetitive services and 24/7 self-service. Ticket Vending Machines is a project driven by the Fiji government to support the whole national population on public transport.

On the other hand, the Group is in the process of rolling out an AFC system on our latest bus operation in the Republic of Maldives ("Maldives") by partnering with the sole port operator in Maldives. The buses will transport commuters between Male and Hulhumale via a newly constructed bridge, Sinamale Bridge. The AFC system is expected to serve around 10,000 local residents and international travelers at the initial phase. The system was launched in September 2018 and it will be further extended to land and ferry transports in other atolls.

Advanced Card Systems Limited ("ACS"), a wholly owned subsidiary of the Group, has been contracted by one of the world-leading AFC solution integrators to provide the cutting-edge bus validators for the Malaysian transport market. During the year, around 600 units of newly customised ACR330 bus validators have been supplied by the Group under this project. The local bus operator will install the devices onto around 600 buses in 2019, which are then expected to serve millions of commuters within Johor, Malaysia as well as the bus routes between Malaysia and Singapore.

BUSINESS REVIEW *(continued)*

Financial Technology and Smart Living *(continued)*

Moving forward, the Group intend to expand our market share and business footprints to other Pacific Islands and the countries covered by One Belt and One Road Initiative. We will also strive to provide better products and services, such as enhancement of features on existing products.

Products launched

During the year, the Group launched the below three main products:

1. ACR1311U-P Bluetooth Top-up Terminal is mainly installed in crowded places such as bus stations, train stations and supermarkets. It allows users to connect their mobile phones with ACR1311U-P automatically by scanning the QR code or other means. Card top-up can be done with a mobile application as when it connects to ACR1311U-P.

2. ACOS5-EVO is the latest addition to the ACOS5 series. It is compliant with international standards for PKI (Public Key Infrastructure) smart cards, making it ideal for public-key based applications such as digital signing, email security, online log-on, network log-in, blockchain applications, and others.

3. AMR220-C1 Secure Bluetooth mPOS Reader is primarily designed to meet major payment and security standards, such as Mastercard Contactless, Visa payWave and EMV Level 1 & Level 2. It is Apple Pay and Android Pay ready.

Events and awards

The Group remains active in industry activities. In 2018, it participated in several key industry events such as Securing Federal Identity 2018 in Washington D.C., the U.S.. This event highly focused on the future of the federal government of the U.S. policies and technology developments for securing federal identity and access control of facilities and network systems. Experts from the federal government and the security industry filled the conference agenda and exhibition area to present the future direction of the government's efforts to manage identities and control access across all federal agencies. The event provides valuable learning, discussion and networking opportunities among suppliers, technological experts, government officials and other industry players. During the event, ACS had showcased mainly its new e-government readers including the USB type smart card readers and the Bluetooth interface readers. Our showcase allowed government attendees to visit and learn more about our innovative identity products and services enabling secure federal identities today and in the future.

Also, we participated in Trustech 2018 in Cannes, France. This event encompasses all secure and trusted solutions, from smart cards and secure documents through to artificial intelligence and embedded hardware and software for the IoT (Internet of Things). ACS showcased its latest products of various smart card readers and smart card solutions that provides excellent support for AFC systems, stringent payment standards and complex payment applications.

BUSINESS REVIEW *(continued)*

Financial Technology and Smart Living *(continued)*

Events and awards (continued)

ACS was awarded the Asia's Most Innovative Smart Card Solutions of the Year on 20 December 2018 in the Leaders of Innovation 2019 in Hong Kong. Leaders of Innovation 2019 is organised by Corphub, an integrated digital platform that focuses on business and finance insight. It recognises outstanding achievements of Hong Kong enterprises in pursuit of innovative and smart technologies. All winners were selected by a judging panel, formed by an elite group of business leaders, committee members of chambers, and professionals from various fields, according to a set of principles including corporate management and governance, financial performance and market competitiveness, product innovativeness, and social responsibility.

Financial services and investment

The Group built a team to develop the financial services and investment businesses in the second half of 2017 and conducted certain transactions in 2017. However, macro environment deteriorated rapidly since the beginning of 2018, with a sharp decrease of Chinese investment in overseas technology companies, especially in the U.S., our core target market. At the same time, one of the controlling shareholders of the Group, HNA Group Co., Ltd. ("HNA Group") which is also controlling shareholder of our key customer for the financial services business, is shifting its business focus to the core airline, travel and related businesses. As a result, we decided to scale back the financial services and investment business since early 2018 and carry more stringent costs saving procedures to continue to run this segment with minimal costs.

PROSPECTS

Financial Technology and Smart Living

In 2019, the Group will keep exploring opportunities for two AFC projects which are in Maldives and Algeria. Going forward, the Group will continue to expand our market share by focusing on upgrading existing products and services, such as enhancement of features on existing products, as well as developing potential new products, so as to catch up with the latest market trends and rapid changes in technologies.

Financial Services and Investment

The management is of the view that the several unfavorable macro-factors of the Group's financial services and investment business will remain for 2019, and the management decided to scale back its financial services and investment business to save costs. There was no revenue recognised for the financial services and investment segment in 2018, and the management had carried out costs saving procedures in the past and would further reduce costs incurred by this segment in the future. After taking into account of the effective costs control procedures, the Group decided to retain the financial services and investment business at a minimal scale. However, the management is still actively evaluating the evolvement of market conditions and the strategic options of our financial services and investment business, and will keep eyeing for the right opportunities in the future.

RISK FACTORS

The Group's results of operations, financial condition and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's results of operations, financial condition and growth prospects differing materially from expected or historical results. Such factors are by no means exhaustive or comprehensive and there might be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Operation Risk

Reliance on a limited number of large customers

Sales to the top five customers accounted for 23% of the Group's revenue for the year ended 31 December 2018 (2017: 37%). The drop in the percentage of total sales indicated that there is reduction on the reliance of big customers, thereby limiting the risks of relying on limited number of customers. We keep maintaining a pool of customers to minimize the risks of over-reliance on few key customers. However, there is no assurance that the demand for the products of the Group from these customers can be maintained in the future. In the event that the demand from them decreases significantly and the Group is unable to find replacement customers on terms acceptable to the Group, results of operations of the Group may be adversely affected.

Reliance on certain independent manufacturers for manufacturing smart card related products

The Group does not own any production facilities. It subcontracts substantially all of its production activities to external manufacturers in the PRC. During the year ended 31 December 2018, the Group engaged three (2017: three) manufacturers for smart card, two of which were engaged by the Group for at least over 5 years. The Group maintained one (2017: two) manufacturer for smart card reader because of lacking competitiveness of another manufacturer in terms of production costs and delivery schedule. The Group has been closely monitoring the production situation of this manufacturer for smart card reader to ensure the Group's ability to meet product delivery schedule. In addition, the Group will start to look for another new manufacturer for smart card reader.

However, financial or other difficulties faced by these manufacturers or any change in the Group's relationship with these manufacturers could affect the Group's ability to meet scheduled product deliveries to its customers and may in turn adversely affect the Group's business operations.

RISK FACTORS *(continued)*

Operation Risk *(continued)*

Reliance on ability to attract and retain skilled engineers

The performance of the Group depends, to a significant extent, on the continued services and performance of its research, development and deployment teams. As at 31 December 2018, 49% (2017: 53%) of full-time employees of the Group are engineers for research, development and deployment and 38% (2017: 37%) of them served the Group for over 5 years. Competition for employees with the requisite skills, qualifications and experience in the industry is intense. If the Group is unable to attract, retain and motivate skilled engineers in the future, the operations of the Group may be adversely affected.

Business Risk

Rapid changes in technology

The Group operates in a market which is characterised by rapid changes in technology, industry standards, customer preferences and frequent introductions and enhancements of products and services. Accordingly, the performance of the Group will depend on overall market demand on smart card technology and related products and its ability to improve the functions and reliability of its products and services and adapt to new industry standards and customer preferences. In the event that the Group fails to adapt successfully to such changes, the results of operations and growth prospects of the Group may be adversely affected.

Substantial capital expenditure on new products and services

The introduction of new products and services in response to rapid changes in technology, industry standards and customer preferences may require substantial capital expenditure. During the year ended 31 December 2018, the Group recorded an addition of HK$7.7 million (2017: an addition of HK$11.0 million) on development costs of new products and services. The reason for the decrease is that developing new products takes time and uncertainty, so in current year, our strategy is to focus more on existing products enhancement thus less costs are spent on developing new products. As at 31 December 2018, balance of development costs of new products and services amounted to HK$42.8 million (2017: HK$45.5 million). The substantial capital expenditure may have an adverse impact on the financial resources of the Group. In the event the new products and services do not achieve market acceptance or there is substantial delay in the process, the results of operations and growth prospects of the Group may be adversely affected.

Financial Risk

The Group is exposed to a variety of key financial risks including mainly credit risk, which is mainly derived from offering credit term to customer but have the risk of cash shortage due to the time delay from payment to suppliers to collecting cash from customers. Also, there is a risk of default from customers and the trade receivables became non-recoverable. Details of the aforesaid key risk and risk mitigation measures are elaborated in note 25 "Financial risk management and fair values of financial instruments" to the financial statements of this annual report.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2018, the Group's cash and cash equivalents amounted to HK$27.9 million (31 December 2017: HK$29.6 million). The Group repaid all outstanding bank borrowings in 2017, resulting in nil balance of bank borrowings as at 31 December 2018 and 31 December 2017. The Group's net asset as at 31 December 2018 was HK$127.9 million (31 December 2017: HK$153.7 million).

The Group's equity capital and the cash generated from operating activities, has been applied to fund its working capital and other operational needs. During the year, the Group recorded net cash inflow in operating activities of HK$9.1 million (2017: HK$17.1 million), the amount decreased as a result of decline in sales performance during the year. The Group recorded net cash outflow in investing activities of HK$10.7 million (2017: HK$13.5 million) during 2018, the amount decreased as a result of less capital expenditures were spent on development projects as more focus was spent on enhancing existing projects during the year. The Group recorded a net cash outflow in financial activities of HK$14.4 million in 2017 for settlement of all outstanding bank loans, and there was no further net cash inflow nor outflow in financial activities in 2018.

DISPOSALS AND ACQUISITIONS

During the year ended 31 December 2018, the Group did not have any material disposals or investments of subsidiaries and affiliated companies.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

As at 31 December 2018, the Group did not have any capital commitment related to acquisition of plant and equipment, nor any plan authorised by the Board for other substantial investment or additions of capital assets.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in Hong Kong dollars ("HKD"), Philippine Pesos, United States dollars ("USD") and Renminbi ("RMB"). As HKD is pegged to USD, exchange risk arising from USD does not have significant financial impact to the Group. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement if necessary. During the year ended 31 December 2018, no forward foreign exchange or hedging contracts had been entered by the Group (2017: nil).

PLEDGE OF ASSETS

As at 31 December 2018, the Group did not pledge any of its material assets (2017: nil).

CONTINGENT LIABILITIES

As at 31 December 2018, the Company had no significant contingent liabilities (2017: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 182 (2017: 205) full time employees. Staff costs recognised in profit or loss amounted to HK$56.3 million (2017: HK$49.7 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience, and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

EXECUTIVE DIRECTORS

Mr. CUI Yijun | Chairman

Mr. Cui Yijun (崔軼雋), aged 37, is an executive director and the chairman of the Board, all of which were appointed on 10 May 2018.

Mr. Cui has extensive experiences in financial management, capital operation as well as international finance. He started his career with HNA Group in 2004 and served various management positions in HNA Group's subsidiaries including chief investment officer, chief innovation officer and financial controller of HNA Technology Group Co., Ltd.* (海航科技集團有限公司) ("HNA Tech Group"), chief financial officer of HNA Capital Group Co. Ltd.* (海航資本集團有限公司), general manager of finance department of Hainan Airlines Holding Co., Ltd. (a Shanghai A-share listed company with stock code: 600221). Mr. Cui has been the chief financial officer of HNA Group (International) Company Limited since November 2018 and he also serves as a director in several subsidiaries of HNA Group.

Mr. Cui obtained a bachelor's degree in English from Xi'an Jiaotong University in 2004. He is currently enrolled in Executive Master of Business Administration in Guanghua School of Management of Peking University.

Mr. ZHENG Xuedong | Chief Executive Officer

Mr. Zheng Xuedong (鄭學東), aged 39, is an executive director, a member of the remuneration committee and the chief executive officer of the Group, all of which were appointed on 10 May 2018. He is also a director of several subsidiaries of the Group.

Mr. Zheng joined the Group as a Vice President in July 2017 and has over 15 years of experience in the financial industry. Prior to joining the Group, Mr. Zheng was an investment director of Intermediate Capital Asia Pacific Limited, the Asia Pacific arm of London-listed alternative asset manager Intermediate Capital Group and worked in Hony Capital as a vice president in the private equity management department. He also served as the vice president of Morgan Stanley investment banking division.

Mr. Zheng obtained a master of business administration degree from the University of California, Los Angeles and a double bachelor degree of Economics and English from Peking University. Before joining the Group, Mr. Zheng acted as a licensed person registered with the Securities and Futures Commission and was a responsible officer who was licensed to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (the "SFO").

* *For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT

Mr. TONG Fu

Mr. Tong Fu (童甫), aged 36, was appointed as an executive director and the chairman of the Board on 7 July 2017, and stepped down from the position of chairman of the Board on 10 May 2018 and remains to be an executive director.

Mr. Tong served various key roles across serval functions in HNA Group since joining HNA Group, such as director of the general administration office, general manager of corporate social responsibility, chief innovation officer, general manager of information technology development department, director of HNA Group and chairman of the board of directors of HNA Tech Group. These managerial experiences have given him a deep understanding in corporate strategy, innovation management and logistics operations. He has led a number of important investments on behalf of HNA Group. Mr. Tong has been the chairman of the board of directors of HNA Technology Co., Ltd. (formerly known as TianJinTianhai Investment Company Limited) (a Shanghai A-share and B-share listed company with stock code: 600751 and 900938 respectively) since March 2017. He also serves as a director in several subsidiaries of HNA Group.

Mr. Tong obtained a bachelor of science degree from Peking University in June 2004 and a master of business administration degree from Peking University in January 2015.

Mr. ZHANG Tao

Mr. Zhang Tao (張陶), aged 36, was appointed as an executive director on 7 July 2017.

Mr. Zhang started his career with HNA Group in 2004 and served various management positions in HNA Group's subsidiaries since then, including manager of financial internal control center of HNA Tourism Holding (Group) Co., Ltd* (海航旅業控股(集團)有限公司), general manager of plan finance department of Deer Jet Beijing Co. Ltd and Beijing Capital Airlines Co., Ltd. respectively, financial controller of HNA Xinhua Culture Holding Group Co., Ltd* (海航新華文化控股有限公司), chairman of Beijing Shareco Technologies Co., Ltd, vice president of HNA Culture Holding Group Co., Ltd* (海航文化控股集團有限公司), chairman and chief executive officer of HNA USOLV Co., Ltd* (海航雲商投資有限公司) and financial controller and deputy chief innovation officer of HNA Tech Group. Mr. Zhang currently serves as a director in Beijing Pactera Software Technology Co., Ltd* (北京文思海輝軟件技術有限公司) and several other subsidiaries of HNA Group.

Mr. Zhang obtained a bachelor of diplomacy degree and bachelor of economics degree from Peking University in June 2004 and a master of business administration degree from Peking University in July 2015.

* *For identification purposes only*

Mr. WONG Chi Ho

Mr. Wong Chi Ho (黃智豪), aged 40, is an executive director and a member of the nomination committee, all of which were appointed on 24 March 2015. He is also a director and the legal representative of several subsidiaries of the Group. He joined the Group in July 2013. He is involved in the development of the Group's smart card and smart card reader technologies. Mr. Wong has over eight years of engineering work experience in Silicon Valley, California, the U.S., where he worked for Qualcomm Technologies, Inc., Nvidia Corporation and Sun Microsystems Inc.

Mr. Wong obtained a master of science in management, science and engineering degree from Stanford University in California, the U.S. in January 2005 as well as bachelor of science in engineering in electrical engineering (Summa Cum Laude) and master of science in engineering in electrical engineering degrees from The University of Michigan at Ann Arbor in Michigan, the U.S. in April 2001 and April 2002, respectively. Mr. Wong passed Level 3 of the Chartered Financial Analyst Study and Examination Program of the CFA Institute.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. GUO Dan

Mr. Guo Dan (郭眈), aged 44, is an independent non-executive director and a member of the audit committee, all of which were appointed on 27 June 2017. Mr. Guo was appointed as the chairman of the nomination committee and a member of remuneration committee with effect from 30 September 2017.

Mr. Guo joined Baidu Online Network Technology (Beijing) Co., Ltd.* (百度在線網絡技術(北京)有限公司) ("Baidu Online"), a wholly owned subsidiary of Baidu, Inc. (NASDAQ: BIDU) in January 2000. He was a member of the engineering team of Baidu Online upon its incorporation and has been with Baidu Online over 11 years, during which he served various positions, including senior engineer, senior engineering manager, engineering director and senior engineering director, and was responsible for research and development of Baidu technology, including search engine and advertisement system.

Mr. Guo obtained a master of science degree in management from The Leland Stanford Junior University in June 2012 and a doctor's degree in communication and information systems from Beijing Jiaotong University in April 2012.

* *For identification purposes only*

Dr. LIN Tat Pang

Dr. Lin Tat Pang (連達鵬), aged 63, is an independent non-executive director and the chairman of the audit committee, all of which were appointed on 22 December 2017. Dr. Lin was appointed as a member of the nomination committee and a member and the chairman of the remuneration committee with effect from 31 December 2018.

Dr. Lin is also an independent non-executive director of China Aluminum Cans Holdings Limited (Main Board listed company with stock code: 06898) since June 2013. Dr. Lin has over 30 years of experience in accounting, finance and public offerings. Dr. Lin served as assistant accountant, accounting manager and chief accountant in Sun Hung Kai Securities Limited during 1980 to 1988. He joined Sun Hung Kai Investment Services Limited and Sun Hung Kai Forex & Bullion Co. Limited as executive director in December 1989. He was also appointed as company secretary of Sun Hung Kai & Co. Limited (Main Board listed company with stock code: 00086) in November 1990. Subsequently, he worked for Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") between December 1992 and March 2013, and his last position was senior consultant to the Listing, Listing & Regulatory Affairs Division of Hong Kong Exchanges and Clearing Limited.

Dr. Lin obtained his Doctor of Law, Master of Law and Bachelor of Law from Peking University in 2009, 1998 and 1992 respectively. He also completed his Postgraduate Certificate in Hong Kong Law in City University of Hong Kong in 1993. Dr. Lin is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Chartered Association of Certified Accountants, United Kingdom. He is also a member of the Chartered Institute of Arbitrators, United Kingdom.

Ms. O Wai

Ms. O Wai (柯慧), aged 42, is an independent non-executive director and a member of the audit committee, all of which were appointed on 15 March 2019.

Ms. O has over 15 years of working experience in audit, risk management, corporate finance and asset management, and has strong financial knowledge, deep understanding of the supervisory systems of banking and securities, and rich project management experience. Ms. O worked in Deloitte China (including Deloitte Touche Tohmatsu, Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing Branch and Deloitte & Touche Financial Advisory Services Limited) for around 10 years from May 2003 to February 2013, where she served in various departments including audit department, reputation and risk group department and financial advisory department and enriched her knowledge and experience in finance, risk management, compliance and financial advisory. In 2013 to 2014, she worked in China Minsheng Trust Co., Limited* (中國民生信託有限公司) as trust manager. Since 2015, Ms. O has been working in Beijing branch of Huarong Securities Co., Limited* (華融證券股份有限公司北京分公司), and currently holds the position of general manager of asset management department.

Ms. O obtained a bachelor of commerce degree from The University of Auckland, New Zealand in 2002. Ms. O is a member of the Hong Kong Institute of Certified Public Accountants since 2014. She is also a member of The Securities Association of China and Asset Management Association of China since 2016 and 2018, respectively.

SENIOR MANAGEMENT

Mr. PENG Zhi | Financial Director

Mr. Peng Zhi, aged 39, is the financial director of the Group since August 2017. He is also a director of several subsidiaries of the Group. Mr. Peng has over 17 years of experience in financial management and has substantial financial management knowledge and experience. He joined the financial department of Hainan Airlines Holding Co., Ltd. in July 2001. He joined Hong Kong Airlines Limited in May 2011 and has successively served as deputy general manager, general manager and finance director of its finance department until August 2017.

Mr. Peng graduated from Xi'an Jiaotong University in July 2001 with a bachelor of finance degree. He is currently studying an Executive Master of Business Administration course at City University of Hong Kong.

* *For identification purposes only*

The Board believes that good corporate governance is one of the methods to safeguard the interests of the shareholders and enhance the Group's value and accountability. The Board is devoted to ongoing improvement in the efficiency and effectiveness of its corporate governance practices.

During the year, the Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The directors are of the opinion that the Company has compiled with the code provisions set out in the CG Code for the year ended 31 December 2018.

BOARD OF DIRECTORS

Responsibilities

The Board is accountable to the shareholders for the Group's performance and activities. The Board is responsible for establishing strategic directions of the Company; setting objectives and business development plans; monitoring performance of the senior management; and assuming responsibility for corporate governance. All directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the shareholders at all times.

Delegation by the Board

While the Board retains at all times full responsibility for guiding and monitoring the Company, it has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference, which are posted on the websites of the Stock Exchange and the Company respectively.

The Board may from time to time delegate certain functions to the management of the Company if and when considered appropriate. The management is responsible for implementing the strategies and plans established by the Board; executing daily administration and operation of the Group; and submitting reports on the Group's operations to the Board on a regular basis to ensure effective discharge of the Board's responsibilities.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Group.

BOARD OF DIRECTORS *(continued)*

Composition

The Board holds the view that it should include a balanced composition of executive directors and independent non-executive directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement. As at the date of this annual report, the Board comprises five executive directors and three independent non-executive directors. The independent non-executive directors represent over one-third of the Board, and meet the requirement of the Listing Rules relating to at least one of them possessing appropriate professional qualifications, accounting or related financial management expertise. Details of each director are disclosed on page 14 to page 18 of this annual report. The directors of the Company during the year ended 31 December 2018 and up to the date of this annual report are:

Executive Directors

Mr. Cui Yijun *(Chairman, appointed on 10 May 2018)*
Mr. Zheng Xuedong *(Chief Executive Officer, appointed on 10 May 2018)*
Mr. Tong Fu
Mr. Zhang Tao
Mr. Wong Chi Ho
Mr. Peng Fang *(resigned on 10 May 2018)*
Mr. Wang Hao *(resigned on 31 July 2018)*

Independent Non-executive Directors

Mr. Guo Dan
Dr. Lin Tat Pang
Ms. O Wai *(appointed on 15 March 2019)*
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*

On 31 December 2018, Ms. Kaung Cheng Xi Dawn resigned as an independent non-executive director, a member and the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee. On 15 March 2019, Ms. O Wai was appointed as an independent non-executive director and a member of the audit committee.

As a result, the Company was not in compliance with Rules 3.10(1) and 3.10A of the Listing Rules with regard to the composition of the Board and Rule 3.21 of the Listing Rules with regard to the composition of the audit committee from 31 December 2018 to 14 March 2019. Following the appointment of Ms. O Wai on 15 March 2019 as an independent non-executive director and a member of the audit committee, the Company has complied with Rules 3.10(1) and 3.10A of the Listing Rules in relation to the composition of the Board and Rule 3.21 of the Listing Rules with regard to the composition of the audit committee.

Save as disclosed above, there was no change in the composition of the Board during the year ended 31 December 2018. There is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board.

BOARD OF DIRECTORS *(continued)*

Chairman and Chief Executive Officer

The roles of the chairman and chief executive officer are separate and are not performed by the same individual as this ensures better checks and balances, and hence better corporate governance.

The chairman of the Board is mainly responsible for providing leadership and directions to the Board to ensure that the Board works effectively in discharging its responsibilities. On 10 May 2018, Mr. Tong Fu stepped down from the position of chairman of the Board but remained as an executive director, and Mr. Cui Yijun was appointed as an executive director and the chairman of the Board. On 31 July 2018, Mr. Wang Hao resigned as an executive director and the vice chairman of the Board due to his other business commitments.

The chief executive officer's primary role is in charge of day-to-day operations and business development of the Group. On 10 May 2018, Mr. Peng Fang resigned as an executive director and the chief executive officer due to his other business commitments, and Mr. Zheng Xuedong was appointed as an executive director and the chief executive officer.

Directors' Securities Transactions

For the year, the Company has adopted dealings rules on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the "Model Code"). Upon specific enquiries, all the directors confirmed in writing that they had complied with the required standard set out in the Model Code during the year ended 31 December 2018 regarding their securities transactions.

Induction and Continuous Professional Development

All newly appointed directors would be provided with necessary induction and information to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the requirements of the Listing Rules and relevant statutory obligations.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company also provides the directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The directors are also provided with regular updates on the Company's performance and prospects to enable the Board as a whole and each director to discharge their duties.

BOARD OF DIRECTORS *(continued)*

Induction and Continuous Professional Development *(continued)*

The directors have complied with the requirement under code provision A.6.5 of the CG Code regarding continuous professional development during the year ended 31 December 2018 in the following manner:

Name of Directors	Reading materials in relation to corporate governance and regulatory requirements	Attending seminars/ courses/conferences to develop professional skills and knowledge
Executive Directors		
Mr. Cui Yijun *(Chairman, appointed on 10 May 2018)*	✓	–
Mr. Zheng Xuedong *(Chief Executive Officer, appointed on 10 May 2018)*	✓	–
Mr. Tong Fu	✓	–
Mr. Zhang Tao	✓	–
Mr. Wong Chi Ho	✓	–
Mr. Peng Fang *(resigned on 10 May 2018)*	✓	–
Mr. Wang Hao *(resigned on 31 July 2018)*	✓	–
Independent Non-executive Directors		
Mr. Guo Dan	✓	–
Dr. Lin Tat Pang	✓	✓
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*	✓	–

Disclosure of Directors' Other Offices

As code provision A.6.6 under the CG Code requires directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as their identity and the time involved, all the directors have disclosed the relevant information in writing and agreed to notify the Company of any further change in a timely manner.

All the directors also confirmed in writing that they had given sufficient time and attention to the affairs of the Company during the year ended 31 December 2018 or their directorship tenure.

BOARD OF DIRECTORS *(continued)*

Independence of Independent Non-Executive Directors

The role of the independent non-executive directors is to provide independent and objective opinions to the Board, and give adequate control and balances for the Company to protect the overall interests of the shareholders. They serve actively on the Board and its committees to provide their independent and objective views.

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive director. The Company considers that all of its independent non-executive directors are independent.

Seeking Independent Professional Advice

Upon reasonable request, the directors could seek independent professional advice in appropriate circumstances at the Company's expenses. They also could access and consult with the Company's management independently.

Directors' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its directors.

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse board, and sees diversity at board level as an essential element in maintaining a competitive advantage. Thus, the Board adopted a board diversity policy (the "Diversity Policy") on 13 August 2013, which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Diversity Policy, the Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills knowledge, and length of service. All appointments of members of the Board are made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective.

The Board and its nomination committee have set and will continue to consider setting measurable objectives to implement the Diversity Policy, and they review the Diversity Policy and measurable objectives from time to time to ensure their appropriateness and continued effectiveness.

As at the date of this annual report, the Board is characterized by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills, knowledge and length of service.

BOARD OF DIRECTORS *(continued)*

Nomination Policy

Pursuant to the CG Code, the Board adopted a nomination policy (the "Nomination Policy") on 19 December 2018, which sets out the criteria in considering candidates and procedures for the selection, appointment and reappointment of directors with the purpose of ensuring the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Group's business.

The Board is responsible for selection and appointment of directors, while the nomination committee identifies individuals suitably qualified to become directors, selects nominees and makes recommendations to the Board and considers the Board succession plan.

The major criteria considered by the nomination committee and the Board are as follows:

- candidates' character and integrity;
- candidates' qualifications, including professional qualifications, skills, knowledge and experience that are relevant to the Company's strategy and the Group's business;
- candidates' willingness to devote adequate time to discharge duties as a member of the Board, and quantity and nature of their present offices;
- the Diversity Policy and any measurable objectives adopted for achieving diversity on the Board; and
- requirements for the Board to have independent non-executive directors in accordance with the Listing Rules.

The nomination committee is responsible for reviewing the Nomination Policy to ascertain the candidates effectively representing the best interests of the Group and comply with current regulatory requirements.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Group. Additional Board meetings would be arranged, if and when required. Such Board meetings involve a majority of directors' active participation and informed discussions, either in person or through other electronic means of communication. The directors make every effort to contribute to the formulation of policy, decision-making and the development of the Group's business.

BOARD OF DIRECTORS *(continued)*

Board Meetings *(continued)*

The Board held six meetings during the year ended 31 December 2018. An agenda of each Board meeting is presented for comments and approval. The Board is provided with adequate, timely and reliable information about the Group's business and developments before each Board meeting. All the directors are asked to review and comment on the Board minutes within a reasonable time after the meetings to maintain accurate records of the directors' discussions and decisions. Details of individual attendance of directors are set out below:

Name of Directors	Attended/Eligible to attend
Executive Directors	
Mr. Cui Yijun *(Chairman, appointed on 10 May 2018)*	3/3
Mr. Zheng Xuedong *(Chief Executive Officer, appointed on 10 May 2018)*	3/3
Mr. Tong Fu	6/6
Mr. Zhang Tao	6/6
Mr. Wong Chi Ho	6/6
Mr. Peng Fang *(resigned on 10 May 2018)*	2/2
Mr. Wang Hao *(resigned on 31 July 2018)*	4/4
Independent Non-executive Directors	
Mr. Guo Dan	6/6
Dr. Lin Tat Pang	6/6
Ms. O Wai *(appointed on 15 March 2019)*	0/0
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*	6/6

During the year ended 31 December 2018, the chairman has met with the independent non-executive directors without the presence of any other executive director.

BOARD COMMITTEES

The Board has established the audit committee, the remuneration committee and the nomination committee of the Company to oversee particular aspects of the Company's affairs. Each Board committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference are available on the websites of the Company and the Stock Exchange. The finance and investment committee of the Company has been also set up to support the Board in finance and investment issues.

The Board committees are provided with sufficient resources to discharge their duties, including access to the management or professional advice if considered necessary.

BOARD COMMITTEES *(continued)*

Audit Committee

The audit committee was established on 28 September 2004. It is primarily responsible for making recommendations to the Board on the appointment, reappointment, and removal of the external auditor; approving the remuneration and terms of engagement of the external auditor; dealing with any questions of the external auditor's resignation or dismissal; reviewing the Company's financial controls, internal controls, and risk management systems; and reviewing the financial statements of the Company. Other duties of the audit committee are set out in its terms of reference.

The composition of the audit committee throughout the year ended 31 December 2018 is as follows:

Dr. Lin Tat Pang *(Chairman)*
Mr. Guo Dan
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*

All the members are independent non-executive directors, and none of them is a former partner of the Company's existing auditing firm. Dr. Lin Tat Pang, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the audit committee. Due to the resignation of Ms. Kaung Cheng Xi Dawn on 31 December 2018, the Company was not in compliance with Rule 3.21 of the Listing Rules with regard the composition of the audit committee.

On 15 March 2019, Ms. O Wai was appointed as an independent non-executive director and a member of the audit committee. Accordingly, the Company complied with the requirement under Rule 3.21 of the Listing Rules.

The audit committee held four meetings during the year ended 31 December 2018. Out of these four meetings, the audit committee met three times with the external auditor. Details of individual attendance of its members are set out below:

Name of Directors	Attended/Eligible to attend
Independent Non-executive Directors	
Dr. Lin Tat Pang *(Chairman)*	4/4
Mr. Guo Dan	4/4
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*	4/4

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

Set out below is the summary of work performed by the audit committee during the year ended 31 December 2018:

1) to approve the remuneration and terms of engagement of the external auditor;

2) to monitor integrity of the Company's financial statements, annual report and interim report, and to review significant financial reporting judgments contained in them;

3) to review the Company's financial controls, internal controls, and risk management systems; and

4) to discuss the risk management and internal control systems with the management to ensure that the management has performed its duty to have an effective risk management and internal control systems.

Remuneration Committee

The remuneration committee, established on 30 December 2004 in compliance with the relevant Listing Rules, makes recommendations to the Board on the Company's policy and structure for all directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The remuneration of directors is determined according to their expertise, knowledge, and contributions to the Group with reference to the Group's profitability and the prevailing market conditions. The Board expects the remuneration committee to exercise independent judgment and ensures that executive directors do not participate in the determination of their own remuneration.

Details of the remuneration payable to the directors during the year ended 31 December 2018 are set out in note 8 to the financial statements. The remuneration payable to the senior management during the year ended 31 December 2018 falls within the following bands:

Band of remuneration	Number of individuals
HK$1,000,001 to HK$2,000,000	1

The composition of the remuneration committee throughout the year ended 31 December 2018 is as follows:

Dr. Lin Tat Pang *(Chairman, appointed on 31 December 2018)*
Mr. Guo Dan
Mr. Zheng Xuedong *(appointed on 10 May 2018)*
Mr. Peng Fang *(resigned on 10 May 2018)*
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

The remuneration committee held four meetings during the year to determine the specific remuneration packages of all executive directors and senior management and made recommendation on the director's fee of independent non-executive directors. Details of individual attendance of its members are set out below:

Name of Directors	Attended/Eligible to attend
Independent Non-executive Directors	
Dr. Lin Tat Pang *(Chairman, appointed on 31 December 2018)*	0/0
Mr. Guo Dan	4/4
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*	4/4
Executive Directors	
Mr. Zheng Xuedong *(appointed on 10 May 2018)*	1/1
Mr. Peng Fang *(resigned on 10 May 2018)*	3/3

Nomination Committee

The Board established the nomination committee on 20 March 2012 in compliance with the relevant CG Code. The nomination committee reviews the structure, size, board diversity, and composition of the Board, and makes recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifies individuals suitably qualified to become board members and selects or makes recommendations to the Board on the selection of individuals nominated for directorships; assesses the independence of independent non-executive directors; and makes recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

The composition of the nomination committee throughout the year ended 31 December 2018 is as follows:

Mr. Guo Dan *(Chairman)*
Mr. Wong Chi Ho
Dr. Lin Tat Pang *(appointed on 31 December 2018)*
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*

BOARD COMMITTEES *(continued)*

Nomination Committee *(continued)*

During the year ended 31 December 2018, the nomination committee held one meeting to make recommendations to the Board on the appointment of new directors. The nomination committee also reviewed the structure, size, board diversity, and composition of the Board, assessed the independence of independent non-executive director, and reviewed and made recommendation on the Nomination Policy to the Board. Details of individual attendance of its members are set out below:

Name of Directors	Attended/Eligible to attend
Independent Non-executive Directors	
Mr. Guo Dan *(Chairman)*	1/1
Dr. Lin Tat Pang *(appointed on 31 December 2018)*	0/0
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*	1/1
Executive Director	
Mr. Wong Chi Ho	1/1

Finance and Investment Committee

The finance and investment committee was set up on 11 November 2013, aiming to provide executive inputs, supervision, technical/legal oversight, and regulatory compliance of the investment functions of the Company; to assist the Board in evaluating investment, acquisition, joint venture, and divestiture transaction in which the Company is engaged as part of its business strategy from time to time; and to perform such duties and responsibilities as delegated by the Board.

After the resignations of Mr. Wang Hao, Mr. Peng Fang and Mr. Bai Jing during the year ended 31 December 2018, the finance and investment committee currently comprises 2 members, namely Mr. Zheng Xuedong (being the chairman of the finance and investment committee) and Mr. Peng Zhi.

During the year ended 31 December 2018, no meeting was held by the finance and investment committee, and its changes in composition were noted and accepted by the Board.

CORPORATE GOVERNANCE FUNCTION

No corporate governance committee has been established so far, and the Board is responsible for performing the corporate governance duties which include the following items:

- developing and reviewing the Company's policies and practices on corporate governance and make recommendations if needed;
- reviewing and monitoring the training and continuous professional development of directors and senior management of the Company;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing, and monitoring the code of conduct applicable to employees and directors; and
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2018, the Board reviewed the corporate governance practices of the Company with reference to the CG Code and explained any deviation from the CG Code in this Corporate Governance Report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has developed the Group's internal control and risk management systems and has overall responsibility for reviewing and maintaining an adequate and effective internal control and risk management systems to safeguard the interests of the shareholders and the assets of the Group.

To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasises on the importance of the internal control and risk management systems which is also indispensable for mitigating the Group's risk exposures. The internal control and risk management systems are embedded within the business processes and function as an integral part of the overall operations of the Group. As maintaining an effective control system is a shared responsibility of all in the Group, the Group is dedicated to educating all employees via trainings to ensure they understand the importance of internal control and risk management policies and adhere to them.

In order to comply with the CG Code, the Group has set up its own internal audit department to perform an internal audit function in March 2016. Audit plans, risk assessments and internal audit reports are presented to and reviewed by the audit committee and the Board.

INTERNAL CONTROL AND RISK MANAGEMENT *(continued)*

Internal audit department provides an independent assessment of the effectiveness of the Group's internal control and risk management systems in accordance with the CG Code, and assists the audit committee to conduct regular reviews of the Group's internal control and risk management systems. Different audit areas are assigned with different risk ratings and an audit plan is formulated accordingly, so that priority and appropriate audit frequency is given to areas with higher risks. A 4-year internal audit program was established in 2016 and will be ended in 2020. Moreover, an annual internal audit plan which consists of a work schedule as well as the budget and resource requirements for the year develops each year and is reviewed annually and endorsed by the audit committee. The internal auditor conducts regular financial and operational reviews on the Group and reports directly to the audit committee regularly. The internal auditor also monitors the follow up actions agreed upon in response to its recommendations. The audit committee reviews the work performed by the internal auditor and summary of major findings and control weaknesses, if any, at least annually to ensure the effectiveness of internal audit function, internal control and risk management systems.

In order to facilitate the enterprise risk management, a working group for risk management ("Risk Management Working Group") was formed in 2016 as well, of which the members come from senior management and major departments. The Risk Management Working Group is accountable to the audit committee and the Board. It assists the Board in overseeing the Group's risk profile and is responsible for overseeing the effectiveness of management's actions in the identification, assessment, management and reporting of material business risks.

The Risk Management Working Group uses risk management matrix to determine risk level. Each risk is evaluated by the likelihood of the identified risk and the consequences of the risk event. The risk ratings reflect the required management attention and risk treatment effort. All risks are ranked and their treatment is determined by a combination of likelihood and consequence according to a risk matrix, which takes account of risk appetite.

The identified risks together with the risk responses are recorded at the risk register and subject to the Board's oversight. The key elements of the internal control and risk management systems of the Group include establishment of a risk register to keep track of and record identified risks, assessment and evaluation of risks, development and continuous updating of responsive procedures, and ongoing testing of internal control procedures to ensure their effectiveness. After discussing and taking into consideration of the risk responses, the relevant departments and business units shall be assigned to implement the risk management solutions in accordance with their respective roles and responsibilities.

INTERNAL CONTROL AND RISK MANAGEMENT *(continued)*

Risk management meeting is held at least on half yearly basis for providing a communication channel to all members of the Risk Management Working Group and keeping track of the identified risks, monitoring residual risks and identifying new risks, ensuring the execution of risk plans and evaluating their effectiveness in reducing risks.

The Group has established a whistleblowing policy and a system on antifraud for employees and third parties to raise concerns in confidence, which complied with the recommended best practice in the CG Code. In 2018, no incident of fraud or misconduct was reported from employees or stakeholders that had material effect on the Group's financial statements and overall operations.

During the year ended 31 December 2018, the Board, through the audit committee, has assessed the effectiveness of the internal control and risk management systems of the Group including financial, operational and compliance controls and risk management functions and has considered the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Group's accounting and financial reporting function. The Board is satisfied that, the present systems of risk management and internal control are effective.

DISCLOSURE OF INSIDE INFORMATION

The Company acknowledges its responsibilities under the overriding principle that inside information should be announced immediately when it is the subject of a decision. Therefore, the following measures were carried to handle confidential information appropriately.

- The Company has adopted a corporate disclosure policy which must be fully observed by all employees of the Company to educate employees on the procedures of proper information disclosure;
- The Company discloses its inside information on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's and the Stock Exchange's websites;
- The Company strictly prohibits unauthorised use of confidential or inside information;
- Only the executive directors, the company secretary and the senior management responsible for investor relations of the Company are authorised to communicate with parties outside the Company; and
- Employees who, because of their office in the Company, are likely to be in possession of inside information, have also been requested to comply with the guidelines in respect of the securities dealing when dealing in the Company's shares.

ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year ended 31 December 2018. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. A statement by the auditor about its reporting responsibilities is set out on pages 70 to 76 of this annual report.

The directors consider that the Company has adequate resources to continue in business for the foreseeable future and are not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the fee payable to KPMG in respect of audit services amounted to HK$1,040,000 and the fee payable in respect of non-audit service amounted to HK$20,000. The fee payable for non-audit service was related to reporting on the continuing connected transactions of the Group for the year ended 31 December 2018.

There has been no major disagreement between the auditor and the management of the Company during the year ended 31 December 2018.

COMPANY SECRETARY

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company engages an external service provider to provide secretarial service and has appointed Ms. Lee Ka Man ("Ms. Lee") as its company secretary. Since Ms. Lee is not an employee of the Group, Ms. Yau Kar Yi Grace, our Financial Controller, is the person whom Ms. Lee can contact for the purpose of code provision F.1.1 of the CG Code.

Ms. Lee is an associate member of both The Institute of Chartered Secretaries & Administration in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Lee has confirmed that for the year under review, she has taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all the shareholders an equal opportunity to exercise their rights and allow all the shareholders to engage actively with the Company.

Attending General Meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the shareholders. The Company encourages the participation of the shareholders through annual general meetings and other general meetings where the shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings.

The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the shareholders no less than 21 business days before the meetings. At general meetings, separate resolutions are proposed on each substantial issue, including election of individual directors.

SHAREHOLDERS' RIGHTS *(continued)*

Convening an Extraordinary General Meeting

Pursuant to Article 12.3 of the memorandum and articles of association ("M&A"), general meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

VOTING AND PUTTING FORWARD RESOLUTIONS

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

There is no provision under the Companies Law (2012 Revision) of the Cayman Islands and the M&A allowing the shareholders to propose new resolutions or move resolutions at general meetings. The shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting.

VOTING AND PUTTING FORWARD RESOLUTIONS *(continued)*

Proposing for Election as a Director

Pursuant to Article 16.4 of the M&A, no person shall, unless recommended by the Board, be eligible for election to the office of director at any general meeting, unless notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election as a director and notice in writing signed by the person to be proposed of his willingness to be elected have been given to the company secretary of the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

Details for the shareholders to propose a person for election as director are available on the Company's website.

Enquiries to the Board

The shareholders may send their enquiries and concerns in writing to the Board by addressing them to the principal place of business of the Company in Hong Kong, presently at Units 4108-4110, 41st Floor, Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong, or email to the designated email addresses of the Company.

Upon receipt of the enquiries, the matters within the Board's purview will be forwarded to the executive directors and the issues relating to the Board committees' responsibilities will be sent to the chairmans of the relevant committees.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information on the Company for the shareholders and investors to make informed investment decisions. To ensure the shareholders are kept well informed, the Company uses a range of communication tools, such as annual general meetings, annual reports, interim reports, various notices, announcements, and circulars. In addition, the Company maintains the official website at www.hnatechinv.com, where the up-to-date information of the Company's business introduction, financial information, corporate governance practices and other information are available for public easy access.

Annual general meetings of the Company provide opportunity for the shareholders to communicate mutually and efficiently with the directors. The chairman of the Board and the chairmans of the Board committees will attend annual general meetings to answer the shareholders' questions. The auditor will also attend annual general meetings to answer questions about the conduct of audit, the preparation and content of auditor's report, the accounting policies and auditor's independence.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS *(continued)*

At the 2018 annual general meeting, a separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The chairmans of the Board, audit committee, remuneration committee and nomination committee attended the 2018 annual general meeting to answer questions of the shareholders. Details of individual attendance of directors at the 2018 general meeting are set out below:

Name of Directors	Attended/Eligible to attend Annual General Meeting
Executive Directors	
Mr. Cui Yijun *(Chairman, appointed on 10 May 2018)*	0/0
Mr. Zheng Xuedong *(Chief Executive Officer, appointed on 10 May 2018)*	0/0
Mr. Tong Fu	1/1
Mr. Zhang Tao	1/1
Mr. Wong Chi Ho	1/1
Mr. Peng Fang *(resigned on 10 May 2018)*	1/1
Mr. Wang Hao *(resigned on 31 July 2018)*	1/1
Independent Non-executive Directors	
Mr. Guo Dan	1/1
Dr. Lin Tat Pang	1/1
Ms. O Wai *(appointed on 15 March 2019)*	0/0
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*	1/1

CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2018, there has been no change in the constitutional documents of the Company.

ABOUT THIS REPORT

HNA Technology Investments Holdings Limited (the "Company"), together with its subsidiaries (the "Group"), is pleased to present this Environmental, Social and Governance Report (the "Report") to provide an overview of the Group's management on significant issues affecting the operation, and the performance of the Group in terms of environmental and social aspects.

Preparation Basis and Scope

This Report is prepared in accordance with Appendix 27 to the Listing Rules – "Environmental, Social and Governance Reporting Guide" and has complied with the "comply or explain" provisions in the Listing Rules.

This Report summarises the performance of the Group in respect of corporate social responsibility, covering its operating activities which are considered as material by the Group – (i) development, sales and distribution of smart card products, software and hardware, provision of smart card related services in PRC, Hong Kong and the Republic of the Philippines ("Philippines"), and (ii) provision of advisory services including financial due diligence and business operation consultancy services in Hong Kong. With the aim to optimise and improve the disclosure requirements in the Report, the Group has taken initiative to formulate policies, record environmental data and implement monitoring measures. This Report shall be published both in Chinese and English on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

Reporting Period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2018 to 31 December 2018.

Contact Information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by email to info@hnatechinv.com.

INTRODUCTION

The Group is one of the world's leading smart card reader suppliers and has been devoted to the research and development of smart card operating system and reader. The Group constantly offers a wide range of new products and promotes the application of smart cards in different areas. It is principally engaged in (i) financial technology and smart living business, which is mainly for development, sales and distribution of smart card products, software and hardware, provision of smart card related services, and (ii) financial services and investment business, which is mainly for provision of advisory services.

The Group is committed to responsible operation and value creation for stakeholders and community by integrating environmental and social factors into management considerations. Sustainability strategy is based on the compliance with the legal requirements in the area in which we operate and the opinions from stakeholders. Sustainability is crucial for the Group's growth in order to achieve business excellence and enhance capabilities for long-term competitiveness. The Group has established and implemented various policies to manage and monitor our operation risks relating to the environment and society. Details of the management approaches to sustainable development of different areas are illustrated in this Report.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group understands the success of the Group's business depends on the support from its key stakeholders, who (a) have invested or will invest in the Group; (b) have the ability to influence the outcomes within the Group; and (c) are interested in or affected by or have the potential to be affected by the impact of the Group's activities, products, services and relationships. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Stakeholders are prioritised from time to time in view of the Group's roles and duties, strategic plan and business initiatives. The Group engages with its stakeholders to develop mutually beneficial relationships and to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment.

The Group acknowledges the importance of intelligence gained from the stakeholders' insights, inquiries and continuous interest in the Group's business activities. The Group has identified key stakeholders that are important to our business and established various channels for communication. The following table provides an overview of the Group's key stakeholders, and various platforms and methods of communication are used to reach, listen and respond.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

Stakeholders	Expectations	Engagement channels	Measures
Government	– Comply with applicable laws and regulations – Proper tax payment – Promote regional economic development and employment	– On-site inspections and checks – Research and discussion through work conferences, work reports preparation and submission for approval – Annual and interim reports – Website	– Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation (e.g. accepted certain 1-2 on-site inspections throughout the year), and actively undertook social responsibilities

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

Stakeholders	Expectations	Engagement channels	Measures
Shareholders and Investors	– Low risk – Return on the investment – Information disclosure and transparency – Protection of interests and fair treatment of shareholders	– Annual general meeting and other shareholder meetings – Annual and interim report, announcements	– Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/circulars/annual and interim reports – Carried out different forms of investor activities with an aim to improve investors' recognition. Held results briefing upon necessary – Disclosed company contact details on website and in published reports and ensured all communication channels are available and effective

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

Stakeholders	Expectations	Engagement channels	Measures
Employees	– Safeguard the rights and interests of employees – Working environment – Career development opportunities – Self-actualisation – Health and safety	– Trainings, seminars, briefing sessions – Cultural and sport activities – Newsletters – Intranet and emails	– Provided a healthy and safe working environment; developed a fair mechanism for promotion; established labor unions at all levels to provide communication platforms for employees; cared for employees by helping those in need and organised employee activities
Customers	– Safe and high-quality products – Stable relationship – Information transparency – Integrity – Business ethics	– Website, brochures – Email and customer service hotline – Regular meeting	– Established laboratory, strengthened quality management to ensure stable production and smooth transportation, and entered into long-term strategic cooperation agreements

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

Stakeholders	Expectations	Engagement channels	Measures
Suppliers/ Partners	– Long-term partnership – Honest cooperation – Fair, open information resources sharing – Risk reduction	– Business meetings, supplier conferences, phone calls, interviews – Regular meeting – Review and assessment – Tendering process	– Invited tenders publicly to select best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors

Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

The Group have adopted the principle of materiality in the environmental, social and governance ("ESG") reporting by understanding the key ESG issues that are important to the business of the Group. All the key ESG issues and key performance indicators ("KPIs") are reported in the Report according to recommendations of the ESG Reporting Guide (Appendix 27 of the Listing Rules) and the GRI Guidelines.

The Group have evaluated the materiality and importance in ESG aspects through the following steps:

Step 1: Identification – Industry Benchmarking

- Relevant ESG areas were identified through the review of relevant ESG reports of the local and international industry peers.
- The materiality of each ESG areas was determined based on the important of each ESG area to the Group through internal discussion of the management and the recommendation of ESG Reporting Guide (Appendix 27 of the Listing Rules).

Step 2: Prioritisation – Stakeholder Engagement

- The Group discussed with key stakeholders on key ESG area identified above to ensure all the key aspects to be covered.

Step 3: Validation – Determining Material Issues

- Based on the discussion with key stakeholders and internal discussion among the management, the Group's management ensured all the key and material ESG areas, which is important to the business development, were reported and in compliance with ESG Reporting Guide.

As a result of this process carried out in 2018, those important ESG areas to the Group were discussed in this Report.

A. ENVIRONMENTAL ASPECTS

The Group is mainly involved in office operations and its business activities do not have significant impact on the environment and natural resources. In spite of this, the Group is committed to create a business that contributes to global efforts in environmental care and sustainability. The Group's technology offering also promote environmental sustainability by reducing the waste associated with a wide-range of business activities. The Group's smart card technologies and cloud – based on enterprise collaboration solutions to help customers improve business operations, reducing on unneeded paper-based communications and processes. Furthermore, cashless transactions facilitated by the Group's electronic payment solutions and in particular its Automatic Fare Collection system solutions contributes global efforts to reduce waste and paper consumption. Throughout the year, the Group fully complied with all of the relevant environmental laws and regulations in the countries and regions where we operated, and no concluded cases regarding emissions were brought against the issuer or its employees.

A1. Emissions

As one of the world's leading smart card reader providers, our business bears low impact on air pollutant emission and greenhouse gas emission as most of our operation is offices based. During the reporting period, the Group was in strict compliance with all relevant environmental laws and regulation such as the Environmental Protection Tax Law of China in the PRC, the Air Pollution Control Ordinance (Cap. 311) in Hong Kong, and the Republic Act No. 3931 creating the National Water and Air Pollution Control Commission in Philippines.

Air Pollutant Emission

Emission control is essential for mitigating the impact on the environment and protecting the health of employees. No substantial emissions are generated from any fuels in daily operation as the Group is not engaged in any industrial production. The Group's air pollutants are mainly generated from the mobile sources of the Hong Kong segment. The slight decrease in air pollutant emission in 2018 was mainly attributable to the decrease in sales of smart card products and related services during the year. During the reporting period, the air pollutants emission of the Group is as follows:

Air Pollutants	Unit	**2018 Total**	2017 Total
Nitrogen oxides (NO_x)	kg	**0.93**	0.96
Sulfur dioxide (SO_2)	kg	**0.02**	0.02
Particulate matter (PM)	kg	**0.07**	0.07

A. ENVIRONMENTAL ASPECTS *(continued)*

A1. Emissions *(continued)*

Greenhouse Gas ("GHG") Emission

Climate change is gradually concerned by the community as it affects our daily life. GHG is considered as one of the major contributors to the climate change and global warming. During the reporting period, our scope 1 direct emissions and scope 2 indirect emissions mainly came from mobile combustion and purchased electricity for daily business operations respectively. The Group manages the GHG emissions by minimising the energy consumption to lower carbon footprint. Policies and procedures (as mentioned in the section "A2. Use of Resources") to encourage energy saving have been incorporated throughout the operations in order to reduce the carbon footprint. With its business nature, no GHG emissions are generated or emitted through stationary sources as the Group is not engaged in any industrial production. The overall slight decrease in GHG emission in 2018 is mainly attributable to the decrease in sales of smart card products and related services during the year. The GHG emission of the Group during the reporting period is as follows:

GHG Emission[1]	Unit	2018 Total	2017 Total
Scope 1[2]	tonnes of CO_2-e	**4.27**	3.05
Scope 2[3]	tonnes of CO_2-e	**217.90**	220.14
Total	tonnes of CO_2-e	**222.17**	223.19
Intensity (turnover)	tonnes of CO_2-e/HK$'000	**0.001**	0.001

Hazardous and Non-hazardous Wastes

The Group recognises the importance of waste reduction. Waste management measures have been introduced to minimise the amount of waste generated and the impact on environment. Under its business operation nature, no hazardous waste was generated during the reporting period.

For non-hazardous waste, the waste is mainly generated from daily office operations. The Group takes initiative to reduce waste by implementing different measures. Generally, the Group has engaged qualified recycling companies to collect and handle the waste in accordance to the Prevention and Control of Environmental Pollution by Solid Waste (2015 Amendment) in PRC, the Waste Disposal Ordinance (Cap. 354) in Hong Kong, and the Ecological Solid Waste Management Act of 2000 (RA 9003, 2001) in Philippines.

1 The calculation of the greenhouse gas emission is based on the "Corporate Accounting and Reporting Standard" from greenhouse gas protocol.

2 Scope 1: Direct emission from sources that are owned or controlled by the Group.

3 Scope 2: Indirect emissions from purchased electricity consumed by the Group.

A. ENVIRONMENTAL ASPECTS *(continued)*

A1. Emissions *(continued)*

The Group also promotes the idea of "green office" by introducing more paperless solutions in its daily operations to reduce the volume of paper and printed materials used. For example, the Group actively promotes the use of email to replace traditional mails. Email is used among staff whenever possible. In addition, the Group also encourages electronic corporate communication and shareholders of the Company are encouraged to receive corporate communication documents using electronic means through the Company's website. Besides, recycling bags are available for paper collection. All paper, newspaper and magazines are collected for recycling purpose. The decrease in both recycled paper amount and paper recycling intensity in 2018 was mainly due to the decrease in sales of smart card products and related services and effective implementation of paperless policy which helped to reduce paper printing. With the declining demand on paper use by employees, the amount of recycled paper reduced accordingly.

The Group takes effort to reduce wastes in business operation and handles wastes in an environmental-friendly way. Under our business operation in respect of its nature, the Group generates very small amount of waste during the reporting period. As the Group has outsources its office cleaning work to independent contractors for handling and collecting the non-hazardous waste in the office, the waste volume record is not provided by the cleaning contractor. The Group will coordinate with the cleaning contractor to collect the waste volume data in the coming year in order to formulate appropriate measures to reduce the non-hazardous waste production. The non-hazardous waste recycled by the Group during the reporting period is as follows:

		2018	2017
Non-hazardous waste recycled	**Unit**	**Total**	Total
Paper	tonnes	**1.15**	1.31
Intensity	tonnes/employee	**0.00001**	0.00007

A2. Use of Resources

The Group considers environmental protection as an essential component of a sustainable and responsible business. The Group understands that staff participation is the key to achieve green office and efficient utilisation of resources. In order to help employees to change their behavior into green performance, such as wise and efficient usage of resource and waste minimization, throughout all of our daily operations, we have been progressively implementing different resource saving measures, ranging from power-saving program, recycling paper and materials, to the behavioral change of our people.

A. ENVIRONMENTAL ASPECTS *(continued)*

A2. Use of Resources *(continued)*

Energy

The Group considers environmental protection as an essential component of a sustainable and responsible business. With aims of resource saving and implementation of energy saving measures, the Group actively promotes the concept of energy saving and emission reduction into the entire process of its development and operation. In the meantime, the Group puts effort to raise employees' awareness of green behavior by recommending them to switch off all the lights, computers and printers by the end of the work day. Air-conditioners are set within a reasonable range of around 25 degrees Celsius. The Group regularly upgrades its existing facilities such as replacing outdated computers, phones and other electrical appliances to meet the needs of our customers and enhance operational efficiency.

The Group also endeavor to explore energy saving and green management measures for our facilities, and strive to reduce resource consumption as much as possible. For example, the Group joins the voluntary energy efficiency labeling scheme, introduced by the Electrical and Mechanical Services Department of Hong Kong, to select office equipment based on its grading-type label and recognition-type label. The Group also support The National Energy Efficiency and Conservation Program introduced by the Department of Energy of Philippines by switching away from traditional incandescent light into energy efficient lighting for offices use. During the reporting period, our energy consumption mainly came from purchased electricity for daily office operations.

The increase in total energy consumption in 2018 was mainly attributable to collection on electricity consumption data for one of its offices in Central newly established in August 2017. The energy consumption of the Group is summarised as follows:

		2018	2017
Energy	**Unit**	**Total**	Total
Purchased electricity	MWh	**376.50**	338.45
Petrol	MWh	**14.01**	10.21
Total energy consumption	MWh	**390.51**	348.66
Intensity (turnover)	MWh/HK$'000	**0.002**	0.002

A. ENVIRONMENTAL ASPECTS *(continued)*

A2. Use of Resources *(continued)*

Water Consumption

Water is one of the most important natural resource for the daily operation. Regarding water consumption for the Hong Kong offices, the water supply of the Central office is solely controlled and centrally managed by its property management of the building. In this case, it is not feasible for the Group to provide all relevant water consumption data as there is no separate meter for the individual office unit to record water usage. However, the Group still actively seeks ways to mitigate water consumption by raising employees' awareness of water saving through green office policy such as reminding employees to turn faucet off tightly and conducting regular inspection and maintenance of water facilities. The decrease in water consumption in 2018 was mainly attributable to the result of water-saving campaign in the Hong Kong and the PRC offices during the year. The water consumption of the Group is summarised as follows:

		2018	2017
Water	**Unit**	**Total**	Total
Total water consumption	m^3	**5,365.28**	6,141.00
Intensity (turnover)	m^3/HK$'000	**0.03**	0.03

Packaging Materials

The major packaging materials used for our finished product are (i) paper box, (ii) plastic bag, and (iii) bubble wrap. The decrease in total packaging materials in 2018 is mainly attributable to the decrease in sales of smart card products and related services during the year. The consumption of those materials of the Group in 2018 is summarised below:

		2018	2017
Packaging materials produced	**Unit**	**Total**	Total
Paper box	tonnes	**13.95**	16.91
Plastic bag	tonnes	**0.03**	0.03
Bubble wrap	tonnes	**2.78**	2.85
Total packaging materials	tonnes	**16.75**	19.79
Intensity (turnover)	tonnes/HK$'000	**0.0328**	0.0388

A. ENVIRONMENTAL ASPECTS *(continued)*

A3. The Environment and Natural Resources

The Group's development, sales and distribution of smart card products, software and hardware, provision of smart card related services, and financial services and investment business has no significant impact on the environment. The Group reviews its environmental policy from time to time and will consider implementing further eco-friendly measures and practices in order to enhance environmental sustainability.

B. SOCIAL ASPECTS

EMPLOYMENT AND LABOUR PRACTICES

B1. Employment

The Group believes people are important assets and competent staff is the foundation for success and development of the Group. We aspire to be an employer of choice and recognise the importance of providing a decent working environment where our employees can thrive. A comprehensive framework incorporating detailed human resources management policies of recruitment, promotion, working hours, equal opportunities, compensation and benefits is embedded in Human Resources Manual and Employee Handbook. The Group strictly complies with the Labour Law of the PRC, the Employment (Amendment) (No.2) Ordinance 2018 in Hong Kong, the Labour Code of the Philippines (RA 10151), and other relevant laws and regulations related to employment by adopting the following key measures:

- The Group prohibits the employment of child, forced or compulsory labour in any of our operations.
- Wages, overtime payments and related benefits are made in accordance with minimum wage or above.
- Holidays and statutory paid leaves are compliant respective Labour Law or Regulations.
- The Group treats all its employees equally that their employment, remuneration and promotion will not be affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.

B. SOCIAL ASPECTS *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

B2. Health and Safety

The Group takes into consideration every precaution to establish a healthy and safe working environment for its employees. The Group strictly complies with the rules and guidelines stipulated in the Law of the PRC on Work Safety, Occupational Safety and Health Ordinance (Cap. 509) by the Labour Department in Hong Kong, the Occupational Safety and Health Standards, and any other applicable laws and regulations such as the Law of the PRC on the Prevention and Treatment of Occupational Diseases. Regarding the business nature of the Group, employees mainly engaged in office work. In 2018, no concluded cases regarding health and safety were brought against the issuer or its employees.

The Group takes into consideration every precaution to establish a healthy and safe working environment for its employees by installing or replacing office equipment if needed, and providing them with all the necessary equipment for protection against work-related injuries. Reviews are conducted with immediate follow-up actions and improvement whenever necessary. Safety guidelines are in place for our laboratories as well.

B3. Development and Training

The Group recognises that the continuous development of its employees is the key to its success. Therefore, the Group provide ample resources to staff training and development with the aim of sustaining a competent and professional staff force that contribute to the success of the Group. There are three major categories of training, namely orientation training, internal training and external training offered to our employees. During the year, we arranged training programmes such as financial management seminars, emotional health seminars and D.O. 183 Provisions and Compliance: A Comprehensive Approach to Observe D.O. 183 Compliance and Handle DOLE Inspections. In order to boost training effectiveness, we carry out assessment in the forms of satisfaction survey for internal training and reports on external training. Our employees are required to record the details of their training in the personal training record, which forms the basis for performance evaluation, personnel changes and promotion. In addition, we have developed a performance management system based on the principles of fairness, impartiality and openness, under which employees of different grades undergo evaluation on half-yearly basis, where their performance and achievements are assessed comprehensively. This motivates employees to improve their individual capability and boosts general corporate efficiency, thereby facilitating our overall strategic goal. The appraisal results will be used as a reference for salary adjustment, promotion and placement.

Moreover, a number of staff activities were organised in various offices, including annual dinner, Christmas party, sports competition, birthday party and so on, to show appreciation to employees for their contribution and to enhance their sense of belonging.

B. SOCIAL ASPECTS *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

B4. Labour Standards

The Group respects the human rights of employees, and is not only strictly complies with labour legislation against the employment of child labour and forced labour such as the Law of the PRC on Protection of Minors, the Employment of Children Regulations under the Employment Ordinance in Hong Kong, and the An Act Providing for the Elimination of the Worst Forms of Child Labor and Affording Stronger Protection for the Working Child (RA 7610) in Philippines, but also implements specific measures to ensure equal opportunities in employment. We respect the rights and interest of every employee, and strongly prohibit the employment of minors under the age of 15. Organisations that are found to be engaging child labour or forced labour will be reported to the management to terminate the corresponding business dealings. There is a comprehensive internal monitoring system to prevent the Group from forcing employees to work by way of violence or illegal restriction of personal freedom.

OPERATING PRACTICES

B5. Supply Chain Management

As part of its commitment to environmental and corporate responsibility, the Group attaches great importance to supplier management and monitors by formulating internal procedures and guidelines for managing environmental and social risks of the supply chain. It undertakes regular reviews on its supply chain to ensure that its partners do not have significant impact on the environment and society.

For almost a decade, all devices developed by the Group have been compliant with the requirements laid down in the directive restricting the use of certain hazardous substances in electrical and electronic products, commonly referred to as the Restriction of Hazardous Substances ("RoHS") Directive. This directive restricts the use of six hazardous materials in manufacturing various types of electronic and electrical products. It covers all domestically made and imported products in the European Union, with a few exemptions given on certain occasions. As such, supply chain management is always one of the key links in the Group's quality control system. The Group exercises a high level of scrutiny over the selection of suppliers. Major suppliers and subcontractors must prove their compliance with RoHS for them to be included into our supplier list.

The Group also carries out long-term quality monitoring and regular review over major suppliers and subcontractors. They are subject to assessment and on-site audits on product quality as well as suitability and quality consistency tests made by our quality department. In case of a significant change in their qualification or serious quality issue, the Group may suspend them from our supplier list.

B. SOCIAL ASPECTS *(continued)*

OPERATING PRACTICES *(continued)*

B6. Product Responsibility

The Group is committed to providing high quality and customer-centred products that promise utmost security and convenience to our clients and their end customers. As such, the nature of our business requires the highest degree of accuracy, precision and quality in developing our products. We continue to cultivate a corporate culture which emphasises the provision of fair and just services for its customers.

Quality Control

To bolster our efforts in quality assurance, we undergo stringent certification programs from unbiased organisations that enforce international, national and industry standards. This is our way of ensuring we deliver only qualified products to the market, and maintaining our outstanding track record in the smart card industry. A wholly owned subsidiary of the Group received its first ISO certification in 2007, having proven success in following the requirements set by ISO 9001 standard. Recently, ISO 9001 certificates of two major wholly owned subsidiaries of the Group were renewed successfully in November 2017 and January 2018.

The Group further improves the level of satisfaction it delivers to customers by carrying out business operations based on the Quality Policy and Quality Procedure Manual. Starting from 2007, the Group surveys its high-volume customers annually which included questions in relation to product quality. Customers rated overall satisfaction level with the products of the Group as “good”, which has been consistent since 2007. It shows that the Group has built up a reliable global network with its trusted customers by providing high quality products and services continuously.

Complaint Handling

The Group’s complaint handling policy is strictly in accordance with regulatory standards to ensure that customers’ opinions are heard and responded in a timely manner in the PRC, Hong Kong, and Philippines.

Customer Data Protection

The Group regards data privacy and security as a key operating principle. The Group committed to protecting confidentiality of the personal data of our employees, business partners and other identifiable individuals. We are in strict compliance with the applicable rules and regulations such as the Cybersecurity Law of the PRC, the Personal Data (Privacy) Ordinance (Cap. 486) in Hong Kong, and the Data Privacy (RA 10173) in Philippines.

B. SOCIAL ASPECTS *(continued)*

OPERATING PRACTICES *(continued)*

B7. Anti-Corruption

The Group considers business ethics and integrity as utmost importance in corporate sustainable development and long-term success. Hence, we strictly adhere to all the applicable laws and regulations, including the Criminal Law in the PRC, the Prevention of Bribery Ordinance in Hong Kong, and the Anti-Graft and Corrupt Practices (RA 3019) in Philippines. The Code of Conduct included in our Human Resources Manual allows our people to understand explicitly on several areas, which include the provisions of anti-bribery and corruption. In addition, the Group has set up a policy for employees to raise their concerns about possible improprieties in financial reporting, internal control or other matters within the Group to come forward and voice their issues in order to commit the highest possible standards of openness, probity and accountability. The Group definitely has zero tolerance on bribery and corruption behaviour.

COMMUNITY

B8. Community Investment

The Group is committed to supporting the community by incorporating social participation and contribution in our business development. We believe through community investment, socially responsible corporate culture and practices can be nurtured in the Group.

In 2018, the Group called for donations of HK$4,000 from employees in Hong Kong for the "Orbis World Sight Day 2018" to help support the new third generation Flying Eye Hospital of Orbis. The charity donations raise awareness of employees on people in needs around the world and encourage them to share their blessings towards others.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

REPORTING INDEX

ENVIRONMENTAL, SOCIAL AND GOVERNANCE *(continued)*

REPORTING INDEX *(continued)*

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
A2: Use of Resources			
General Disclosure		"Use of Resources"	46
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	"Use of Resources – Energy"	47
KPI A2.2	Water consumption in total and intensity	"Use of Resources – Water Consumption"	48
KPI A2.3	Description of energy use efficiency initiatives and results achieved	"Use of Resources – Energy"	47
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	"Use of Resources – Water Consumption"	48
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	"Use of Resources – Packaging Materials"	48
A3: The Environment and Natural Resources			
General Disclosure		"The Environment and Natural Resources"	49
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	"The Environment and Natural Resources"	49

ENVIRONMENTAL, SOCIAL AND GOVERNANCE *(continued)*

REPORTING INDEX *(continued)*

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
B. Social			
Employment and Labour Practices			
B1: Employment			
General Disclosure		"Employment"	49
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	–	–
KPI B1.2	Employee turnover rate by gender, age group and geographical region	–	–
B2: Health and safety			
General Disclosure		"Health and Safety"	50
KPI B2.1	Number and rate of work-related fatalities	No case of work-related fatalities was observed	–
KPI B2.2	Lost days due to work injury	No case of lost days due to work injury was observed	–
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	"Health and Safety"	50

ENVIRONMENTAL, SOCIAL AND GOVERNANCE *(continued)*

REPORTING INDEX *(continued)*

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
B3: Development and Training			
General Disclosure		"Development and Training"	50
KPI B3.1	The percentage of employee trained and employee category	"Development and Training"	50
KPI B3.2	The average training hours completed per employee by gender and employee category	"Development and Training"	50
B4: Labour Standards			
General Disclosure		"Labour Standards"	51
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	–	–
KPI B4.2	Description of steps taken to eliminate such practices when discovered	–	–
Operating Practices			
B5: Supply Chain Management			
General Disclosure		"Supply Chain Management"	51
KPI B5.1	Number of suppliers by geographical region	–	–
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	"Supply Chain Management"	51

ENVIRONMENTAL, SOCIAL AND GOVERNANCE *(continued)*

REPORTING INDEX *(continued)*

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
B6: Product Responsibility			
General Disclosure		"Product Responsibility"	52
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	–	–
KPI B6.2	Number of products and service related complaints received and how they are dealt with	"Product Responsibility – Complaint Handling"	52
KPI B6.3	Description and practices relating to observing and protecting intellectual property rights	–	–
KPI B6.4	Description of quality assurance process and recall procedures	"Product Responsibility – Quality Control"	52
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	"Product Responsibility – Customer Data Protection"	52

ENVIRONMENTAL, SOCIAL AND GOVERNANCE *(continued)*

REPORTING INDEX *(continued)*

Subject areas, aspects, general disclosures and Key Performance Indicators (KPIs)		Section	Page
B7: Anti-corruption			
General Disclosure		"Anti-corruption"	53
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 case	"Anti-corruption"	53
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	"Anti-corruption"	53
Community			
B8: Community Investment			
General Disclosure		"Community Investment"	53
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	–	–
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	"Community Investment"	53

The directors hereby submit their annual report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

HNA Technology Investments Holdings Limited is a company incorporated and domiciled in Cayman Islands and has its registered office at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business was at Units 505-507, Level 5, Two Exchange Square, Central, Hong Kong up to 24 May 2018 and has changed to Office 4908, 49 Floor, The Center, 99 Queen's Road Central, Hong Kong effective from 25 May 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is principally engaged in financial technology and smart living business, and financial services and investment business. The principal activities and other particulars of the subsidiaries are set out in note 15 to the financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 13 of this annual report. This discussion forms part of this Report of the Directors.

For more details regarding the Group's performance by reference to environmental and social-related policies, as well as compliance with relevant laws and regulations that have a significant impact on the Group's business and operation can be found in the Environmental, Social and Governance Report set out on pages 37 to 59 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	6%	–
Five largest customers in aggregate	23%	–
The largest supplier	–	26%
Five largest suppliers in aggregate	–	47%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge to the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CHARITABLE DONATIONS

No charitable donation was made by the Group during the year ended 31 December 2018 (2017: nil).

RESULTS AND APPROPRIATIONS

The loss of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 77 to 163.

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

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders who are entitled to attend and vote at the annual general meeting to be held on Thursday, 30 May 2019 (or any adjournment thereof), the register of members of the Company will be closed from Monday, 27 May 2019 to Thursday, 30 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting (or any adjournment thereof), all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 24 May 2019.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of change in equity on page 80 and note 24(a) to the financial statements, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$56.4 million (2017: HK$58.3 million) includes the Company's share premium which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as and when they fall due in the ordinary course of business.

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24(c) to the financial statements.

DIRECTORS

The directors who held the office during the year and up to the date of this report are:

Executive Directors
Mr. Cui Yijun *(Chairman) (appointed on 10 May 2018)*
Mr. Zheng Xuedong *(Chief Executive Officer) (appointed on 10 May 2018)*
Mr. Tong Fu
Mr. Zhang Tao
Mr. Wong Chi Ho
Mr. Peng Fang *(resigned on 10 May 2018)*
Mr. Wang Hao *(resigned on 31 July 2018)*

Independent Non-executive Directors
Mr. Guo Dan
Dr. Lin Tat Pang
Ms. O Wai *(appointed on 15 March 2019)*
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*

In accordance with Article 16.2 of the Company's Articles of Association, Mr. Zheng Xuedong, Mr. Cui Yijun and Ms. O Wai will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 16.18 of the Company's Articles of Association, Mr. Tong Fu and Mr. Zhang Tao will retire by rotation at the forthcoming annual general meeting. Mr. Tong Fu will, being eligible, offer himself for re-election. Mr. Zhang Tao, an executive director, has indicated that he will not offer himself for re-election due to his other business commitments, will retire at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

The executive directors have entered into service agreements with the Company for a term of two years, which may be terminated by not less than three months' notice in writing served by either party to the other.

The independent non-executive directors have entered into letters of appointment with the Company for a term of two years. Except for Mr. Guo Dan whose letter of appointment may be terminated by not less than two months' notice in writing served by other party to the other, the remaining independent non-executive directors have letters of appointment which may be terminated by not less than three months' notice in writing served by other party to the other.

The period of the service agreements or letters of appointment are as follows:

Name of director	Period
Mr. Zheng Xuedong	10 May 2018 to 9 May 2020
Mr. Cui Yijun	10 May 2018 to 9 May 2020
Mr. Tong Fu	7 July 2017 to 6 July 2019
Mr. Zhang Tao	7 July 2017 to 6 July 2019
Mr. Wong Chi Ho	24 March 2019 to 23 March 2021*
Mr. Guo Dan	27 June 2017 to 26 June 2019
Dr. Lin Tat Pang	22 December 2017 to 21 December 2019
Ms. O Wai	15 March 2019 to 14 March 2021

* Mr. Wong Chi Ho had previously entered into service agreement with the Company which was renewed for further two years from 24 March 2019 to 23 March 2021.

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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

As at 31 December 2018, none of the directors or chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at 31 December 2018, to the best knowledge of the directors of the Company, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

As at 31 December 2018, so far as is known to the directors or chief executive of the Company, the following shareholders (excluding directors and chief executive of the Company) had interests and short positions of 5% or more in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name of shareholder	Notes	Capacity	Long position in ordinary shares of HK$0.10 each Total number of shares held	Approximate percentage of the Company's issued share capital as at 31 December 2018
HNA EcoTech Pioneer Acquisition	(i)	Beneficial owner	238,889,669	74.75%
HNA Technology Group (HK) Co., Limited (海航科技集團(香港)有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
HNA EcoTech Group Co., Ltd.* (海航生態科技集團有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
HNA Group (海航集團)	(i)	Interest in controlled corporation	238,889,669	74.75%
Hainan Traffic Administration Holding Co., Ltd.* (海南交管控股有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
Sheng Tang Development (Yangpu) Co., Ltd.* (盛唐發展(洋浦)有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
Tang Dynasty Development Company Limited (盛唐發展有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
Hainan Province Cihang Foundation* (海南省慈航公益基金會)	(i)	Interest in controlled corporation	238,889,669	74.75%
Cihang Sino-Western Cultural and Educational Exchange Foundation Limited (慈航東西方文教交流基金會有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
Huatai Securities Co., Ltd.* (華泰證券股份有限公司)	(ii)	Interest in controlled corporation	238,889,669	74.75%
Surplus Gain Global Limited	(ii)	Interest in controlled corporation	238,889,669	74.75%
Mr. Lau Wang Chi Barry (劉宏智先生)	(ii)	Interest in controlled corporation	238,889,669	74.75%

* *For identification purposes only*

Notes:

(i) HNA EcoTech Pioneer Acquisition is held as to 100% by HNA Technology Group (HK) Co., Limited which in turn is held as to 100% by HNA EcoTech Group Co., Ltd.. HNA EcoTech Group Co., Ltd. is held as to more than one-third by HNA Group. HNA Group is held as to 70% by Hainan Traffic Administration Holding Co., Ltd.. Hainan Traffic Administration Holding Co., Ltd. is in turn held as to 50% by Sheng Tang Development (Yangpu) Co., Ltd.. Sheng Tang Development (Yangpu) Co., Ltd. is held as to 65% by Hainan Province Cihang Foundation and as to 35% by Tang Dynasty Development Co. Ltd. which is in turn 98% held by Pan-American Aviation Holding Company, which is wholly held by Cihang Sino-Western Cultural and Educational Exchange Foundation Limited. HNA Technology Group (HK) Co., Limited, HNA EcoTech Group Co., Ltd., HNA Group, Hainan Traffic Administration Holding Co. Ltd., Sheng Tang Development (Yangpu) Co., Ltd., Hainan Province Cihang Foundation and Cihang Sino-Western Cultural and Educational Exchange Foundation Limited are therefore deemed to be interested in shares held by HNA EcoTech Pioneer Acquisition under the SFO.

(ii) On 21 August 2018, HNA EcoTech Pioneer Acquisition (the "Controlling Shareholder"), the controlling shareholder (as defined in the Listing Rules) of the Company entered into a share charge agreement with China Construction Bank (Asia) Corporation Limited, pursuant to which the Controlling Shareholder has agreed to pledge 238,889,669 shares in the issued share capital of the Company (the "Pledged Shares") in favour of both Huatai Principal Investment I Limited and Surplus Gain Global Limited for a term loan facility for an amount of up to HK$240 million to the Controlling Shareholder. Therefore, the records in the register to be kept under Section 336 of the SFO was updated that (i) Huatai Securities Co., Ltd., Surplus Gain Global Limited and Mr. Lau Wang Chi Barry are interested in 238,889,669 shares as security interest; and (ii) interest in 238,889,669 shares held by HNA EcoTech Pioneer Acquisition, HNA Technology Group (HK) Co., Limited, HNA EcoTech Group Co., Ltd., HNA Group, Hainan Traffic Administration Holding Co., Ltd., Sheng Tang Development (Yangpu) Co., Ltd, Tang Dynasty Development Company Limited and Hainan Province Cihang Foundation were provided as security to a person other than a qualified lender.

Save as disclosed above, as at 31 December 2018 and to the best knowledge of the directors and chief executives of the Company, no person had an interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section "Connected Transactions" and material related party transactions disclosed in note 27(a) to the financial statements, there was no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, none of the directors of the Company have any interests in a business which competes or may compete with the business of the Group during the year.

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

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be indemnified out of the assets of the Company against all losses or liability incurred or sustained by him or her as a director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. Throughout the year and up to the date of this report, the Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company and its subsidiaries.

BANK LOAN AND OTHER BORROWING

There is no outstanding balance of bank loan and other borrowing as at 31 December 2018 (2017: nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 164 of this annual report.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year or subsisted at the end of the year.

CONNECTED TRANSACTIONS

On 2 November 2017, a wholly owned subsidiary of the Company, namely HNA Technology Investments Limited (the "subsidiary") entered into a mandate (the "Mandate") with HNA Tech Group pursuant to which the subsidiary was appointed as a consultant to HNA Tech Group in connection with the provision of certain consultancy and advisory services (the "Continuing Connected Transaction"). The Company is held as to 75% by HNA EcoTech Pioneer Acquisition, which is an indirect subsidiary of HNA Group, of which HNA Tech Group is a subsidiary. Accordingly, HNA Tech Group is a connected person of the Company and the entering into of the Mandate constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. The service fees of the advisory services were pre-determined in the Mandate. Total service fee recorded for the year ended 31 December 2018 amounted to nil (2017: HK$16,000,000). The Continuing Connected Transaction was approved by shareholders and subject to annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The related party transaction disclosed in note 27(a)(ii) constitutes the above continuing connected transaction under Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are disclosed above.

During the year ended 31 December 2018, the Group paid rental expenses of HK$1,033,000 (2017: nil) HNA EcoTech Pioneer Acquisition for sharing of an office premise. This constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. The related party transaction disclosed in note 27(a)(i) to the financial statements constitute this continuing connected transaction under Chapter 14A of the Listing Rules. However, the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimus threshold under Rule 14A.76(1).

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors have reviewed the above Continuing Connected Transaction and are of the opinion that the transactions have been entered into:

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

(ii) on normal commercial terms; and

(iii) in accordance with the Mandate on terms that are fair and reasonable and in the interests of the shareholder of the Company as a whole.

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

REMUNERATION POLICIES

Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge. The remuneration of directors is determined according to their expertise, knowledge, and contributions to the Group with reference to the Group's profitability and the prevailing market conditions.

EMPLOYEE RETIREMENT PLANS

Particulars of employee retirement plans of the Group are set out in note 22 to the financial statements.

PUBLIC FLOAT

Based on the information publicly available and to the best information and knowledge of the directors, the Company had maintained the prescribed public float as required under the Listing Rules during the year ended 31 December 2018 and up to the date of this annual report.

ENVIRONMENTAL POLICY

The Group is committed to create a business that contributes to global efforts in environmental care and sustainability. A further discussion of the environmental policies of the Group can be found in the Environmental, Social and Governance Report set out in pages 37 to 59 of this annual report, the discussion of which forms part of this Report of the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

AUDITORS

The consolidated financial statements for the year ended 31 December 2018 have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Zheng Xuedong
Director

Hong Kong, 27 March 2019

KPMG

Independent auditor's report to the members of
HNA Technology Investments Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of HNA Technology Investments Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 77 to 163, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, 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.

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.

Capitalisation and amortisation of development costs

Refer to note 13 to the consolidated financial statements and the accounting policies note 2(i).

The Key Audit Matter	How the matter was addressed in our audit
The Group capitalises costs incurred in the development of its smart card products if they meet the criteria for capitalisation as set out in the prevailing accounting standards. This involves significant management judgement in both determining when the criteria for capitalisation are met and in identifying the relevant costs to be capitalised. As at 31 December 2018, the carrying value of capitalised development costs totalled HK$43 million. Amortisation of development costs commences once the developed technology is available for commercial use. Management applies judgement in identifying the point at which the technology is available for commercial use and in determining the estimated useful economic life of the technology by considering technological developments and future possible market conditions. We identified the capitalisation and amortisation of development costs as a key audit matter because of the significant level of management judgement involved in determining when the criteria for capitalisation of development costs are met and in assessing the estimated useful lives of the developed technology.	Our audit procedures to assess the capitalisation and amortisation of development costs included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to the capitalisation of development costs and the estimations of the useful lives of the developed technology; • challenging, on a sample basis, management's assessment of the fulfilment of the criteria for capitalisation of development costs as set out in the prevailing accounting standards by discussing with the Group's engineers the commercial application of the technology and inspecting the corresponding feasibility reports prepared by the Group's engineers; • comparing a sample of items capitalised during the year with relevant underlying documentation, including timesheet data; • comparing the point at which the developed technology became available for commercial use with the corresponding project completion report prepared by the Group's engineers and confirmed sales orders for all projects completed during the current year; • challenging management's assessment of the estimated economic useful lives for all technology newly developed in the current year by comparing the estimates of economic useful lives with past performance for similar projects taking into account recent developments in the technology; and • assessing the estimated economic useful lives of technology developed in prior years by making enquiries of management and engineers and inspecting, on a sample basis, the trend of sales data for the individual technologies.

Valuation of development costs capitalised as intangible assets

Refer to note 13 to the consolidated financial statements and the accounting policies note 2(k).

The Key Audit Matter

The costs incurred in the development of the Group's smart card products are capitalised as intangible assets when certain criteria are met. The carrying value of the Group's development costs capitalised as intangible assets totalled HK$43 million as at 31 December 2018.

Management performs an annual impairment assessment of its capitalised development costs on a project-by-project basis by identifying if there are any projects with indicators of potential impairment, which include a shortfall of revenue generated from the project as compared to management's forecasts, delays in project completion and changes in technology which may render the products obsolete or result in reduced sales opportunities.

For those projects for which an indicator of impairment was identified, management compared the carrying value of individual development costs against the respective discounted cashflow forecast to determine the amount of impairment which should be recognised, if any.

Management is required to exercise significant judgement in estimating the individual products' future revenue, future margins and the related costs to be incurred in bringing the technology into commercial use. The technology industry is dynamic and the reception of the market to the Group's products involves inherent uncertainty.

We have identified the valuation of development costs capitalised as intangible assets as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement in forecasting future cash flows and estimating the recoverable amounts of the development costs, both of which are inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of development costs capitalised as intangible assets included the following:

- assessing and challenging the impairment assessment model, which included evaluating the impairment indicators identified by management and assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards;
- challenging the key assumptions and critical judgements adopted by management in the discounted cashflow forecasts by comparing the significant inputs, which included future revenue and future margins with the historical performance of comparable products and the financial budgets of the individual projects approved by management;
- assessing the appropriateness of the discount rate used in the discounted cashflow forecasts by benchmarking against those of other similar companies in the same industry;
- enquiring of the Group's internal engineers and management about any expected changes in market demand and technological advances which may reduce the expected cashflows to be generated by the developed technology; and
- performing a sensitivity analysis of both the discount rates and future revenue and considering the resulting impact on the impairment assessment and whether there were any indicators of management bias.

Recoverability of trade receivables

Refer to note 18 to the consolidated financial statements and the accounting policies note 2(n).

The Key Audit Matter

The carrying value of the Group's trade receivables as at 31 December 2018 totalled HK$35 million after deduction of loss allowance for expected credit losses of HK$8 million.

Management measures the loss allowance at an amount equal to lifetime expected credit losses, which is estimated by taking into account the credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date, all of which involve a significant degree of judgement.

We identified the recoverability of trade receivables as a key audit matter because the assessment of the recoverability of trade debtors and recognition of loss allowances are inherently subjective and require significant management judgement, which increases the risk of error or potential management bias.

How the matter was addressed in our audit

Our audit procedures to assess the recoverability of trade receivables included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the estimation of expected credit losses under the Group's policy;
- assessing whether items were properly categorised in the trade receivables ageing report by comparing a sample of individual items with underlying sales invoices;
- assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and
- comparing cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 December 2018 with bank statements and relevant underlying documentation on a sample basis.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yue Tat Wai.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	2018 *$'000*	2017 (Note) *$'000*
Revenue	4	**137,685**	182,272
Cost of sales and services		**(63,315)**	(78,498)
Gross profit		**74,370**	103,774
Other income	5	**429**	1,420
Selling and distribution costs		**(16,109)**	(17,911)
Research and development expenses		**(30,787)**	(26,921)
Administrative expenses		**(51,450)**	(53,535)
(Loss)/profit from operations		**(23,547)**	6,827
Finance costs	6(a)	**–**	(165)
Share of results of a joint venture		**–**	(209)
(Loss)/profit before taxation	6	**(23,547)**	6,453
Income tax	7(a)	**93**	(764)
(Loss)/profit for the year attributable to the equity shareholders of the Company		**(23,454)**	5,689
(Loss)/earnings per share	11		
Basic		**(7.339 cents)**	1.780 cents
Diluted		**(7.339 cents)**	1.780 cents

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 82 to 163 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	2018	2017 (Note)
		$'000	*$'000*
(Loss)/profit for the year		(23,454)	5,689
Other comprehensive income for the year (after tax)	10		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		161	(172)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		(1,604)	1,155
Total comprehensive income for the year		(24,897)	6,672
Attributable to:			
Equity shareholders of the Company		(24,897)	6,672

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 82 to 163 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	2018	2017 (Note)
		$'000	*$'000*
Non-current assets			
Plant and equipment	12	**5,472**	5,270
Intangible assets	13	**43,735**	47,000
Deferred tax assets	23(b)	**2,406**	2,709
		51,613	54,979
Current assets			
Inventories	17	**36,191**	37,974
Trade and other receivables	18	**39,990**	57,744
Other financial assets	19	**874**	858
Current tax recoverable	23(a)	**1,607**	556
Cash and cash equivalents	20(a)	**27,937**	29,632
		106,599	126,764
Current liabilities			
Trade and other payables	21	**28,927**	23,948
Current tax payable	23(a)	**118**	2,211
		29,045	26,159
Net current assets		**77,554**	100,605
Total assets less current liabilities		**129,167**	155,584
Non-current liabilities			
Defined benefit obligations	22	**1,293**	1,373
Deferred tax liabilities	23(b)	**–**	510
		1,293	1,883
NET ASSETS		**127,874**	153,701
CAPITAL AND RESERVES			
Share capital	24(c)	**31,956**	31,956
Reserves		**95,918**	121,745
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**127,874**	153,701

Approved and authorised for issue by the Board of Directors on 27 March 2019.

Zheng Xuedong	Wong Chi Ho
Director	*Director*

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 82 to 163 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	Share capital *$'000* (Note 24(c))	Share premium *$'000* (Note 24(d)(i))	Merger reserve *$'000* (Note 24(d)(ii))	Surplus reserve *$'000* (Note 24(d)(iii))	Exchange reserve *$'000* (Note 24(d)(iv))	Retained profits *$'000*	Total equity *$'000*
Balance at 1 January 2017		31,956	53,383	4,496	1,331	(1,104)	56,967	147,029
Changes in equity for the year:								
Profit for the year		–	–	–	–	–	5,689	5,689
Other comprehensive income	10	–	–	–	–	1,155	(172)	983
Total comprehensive income		–	–	–	–	1,155	5,517	6,672
Appropriation to surplus reserve		–	–	–	522	–	(522)	–
Balance at 31 December 2017 (note)		31,956	53,383	4,496	1,853	51	61,962	153,701
Impact on initial application of HKFRS 9		–	–	–	–	–	(930)	(930)
Adjusted balance at 1 January 2018		31,956	53,383	4,496	1,853	51	61,032	152,771
Balance at 1 January 2018		**31,956**	**53,383**	**4,496**	**1,853**	**51**	**61,032**	**152,771**
Changes in equity for the year:								
Loss for the year		–	–	–	–	–	(23,454)	(23,454)
Other comprehensive income	10	–	–	–	–	(1,604)	161	(1,443)
Total comprehensive income		–	–	–	–	(1,604)	(23,293)	(24,897)
Appropriation to surplus reserve		–	–	–	346	–	(346)	–
Balance at 31 December 2018		**31,956**	**53,383**	**4,496**	**2,199**	**(1,553)**	**37,393**	**127,874**

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 82 to 163 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018	2017 (Note)
		$'000	*$'000*
Operating activities			
Cash generated from operations	20(b)	12,456	17,208
Tax paid:			
– Hong Kong Profits Tax (paid)/refund		(3,090)	29
– Tax paid outside Hong Kong		(286)	(101)
Net cash generated from operating activities		9,080	17,136
Investing activities			
Payment for the purchase of plant and equipment		(3,120)	(2,815)
Payment for purchases of other financial assets		(887)	(889)
Proceeds from maturity of other financial assets		856	809
Proceeds from sale of plant and equipment		–	2
Expenditure on development projects capitalised		(7,739)	(10,739)
Interest received		237	157
Net cash used in investing activities		(10,653)	(13,475)
Financing activities			
Repayment of bank loans	20(c)	–	(14,222)
Interest paid	20(c)	–	(192)
Net cash used in financing activities		–	(14,414)
Net decrease in cash and cash equivalents		(1,573)	(10,753)
Cash and cash equivalents at 1 January		29,632	40,551
Effect of foreign exchange rate changes		(122)	(166)
Cash and cash equivalents at 31 December	20(a)	27,937	29,632

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 82 to 163 form part of these financial statements.

1 GENERAL INFORMATION

HNA Technology Investments Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business was at Units 505-507, Level 5, Two Exchange Square, Central, Hong Kong up to 24 May 2018 and has changed to Office 4908, 49 Floor, The Center, 99 Queen's Road Central, Hong Kong effective from 25 May 2018.

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual 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 applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements have been presented in Hong Kong dollars ("HKD"), being the functional and presentation currency of the Company. All financial information presented in HKD has been rounded to the nearest thousands, unless otherwise stated.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings at 1 January 2018.

Retained earnings	*$'000*
Recognition of additional expected credit loss on financial assets measured at amortised cost	930
Net decrease in retained earnings at 1 January 2018	930

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKAS 39, treasury bills of $858,000 were classified as held-to-maturity financial assets. At 1 January 2018, these treasury bills were reclassified to financial assets carried at amortised cost under HKFRS 9, given the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation *(continued)*

a. Classification of financial assets and financial liabilities (continued)

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 2(g),(k)(i),(n) and (q).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and debt securities measured at amortised cost).

For further details on the Group's accounting policy for accounting for credit losses, see note 2(k)(i).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	$'000
Loss allowance at 31 December 2017 under HKAS 39	3,120
Additional credit loss recognised at 1 January 2018 on trade receivables	930
Loss allowance at 1 January 2018 under HKFRS 9	4,050

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (continued)

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(ii) HKFRS 15, Revenue from contracts with customers (continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

(ii) HKFRS 15, Revenue from contracts with customers (continued)

b. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2(u)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. 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 (see note 2(l)).

To reflect these changes, the Group has changed the presentation of sales deposit received from customers amounting to $7,269,000 from "Deposit received" to "Receipt in advance from customers". Both of them are included in "Trade and other payables" (note 21).

As at 1 January 2018 and 31 December 2018, the Group's right to consideration for the goods and services transferred to the customers is unconditional (i.e. only the passage of time is required before the payment is due). Accordingly, the Group presents such right to consideration as receivables rather than contract assets.

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Joint ventures

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt securities

Investments in debt securities are recognised/derecognised on the date the Group commits to purchase/sell the investment or upon maturity. Investment in debt securities are initially stated at fair value plus directly attributable transaction costs. These investments are subsequently accounted for as follows:

(A) Policy applicable from 1 January 2018

If the contractual cash flows of the debt securities held by the Group represent solely payments of principal and interest, the debt securities would be classified as amortised cost, as the Group does not invest in such instruments other than principally to collect those contractual cash flows. Interest income from investments carried at amortised cost is calculated using the effective interest method (see note 2(u)(iii)).

(B) Policy applicable prior to 1 January 2018

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 2(k)(i) – policy applicable prior to 1 January 2018). Interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in note 2(u)(iii). Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Plant and equipment

Plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)).

Gains or losses arising from the retirement or disposal of an item of plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Leasehold improvements	Over the remaining of the leases
– Furniture and fixtures	4 years
– Computer and office equipment	4 years
– Mould	4 years
– Motor vehicles	4 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(w)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 2(k)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Intangible assets (other than goodwill) *(continued)*

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Development costs	4 years
– Customer relationships	7 years
– Technical know-how	4 years

Both the period and method of amortisation are reviewed annually.

(j) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

Measurement of ECLs (continued)

The expected cash shortfalls of fixed-rate financial assets and trade and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments *(continued)*

(A) Policy applicable from 1 January 2018 (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is over 1 year past due. 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 since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

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

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

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

Significant increases in credit risk (continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(u)(iii) 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments *(continued)*

(A) Policy applicable from 1 January 2018 (continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

– significant financial difficulties of the debtor;

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

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments *(continued)*

(B) Policy applicable prior to 1 January 2018 (continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– intangible assets;

– goodwill; and

– investments in subsidiaries and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other non-current assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(u)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(n)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(u)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Contract liabilities *(continued)*

Policy prior to 1 January 2018

In the comparative period, amounts received before sales were performed were presented as "Deposits received" under "Trade and other payables". The presentation of these balances have been changed on 1 January 2018 as "Receipt in advance from customers" under "Trade and other payables" as shown in note 21 (see note 2(c)(ii)).

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(n) Trade and other receivables

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

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)(i)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Trade and other payables

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

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(k)(i).

(r) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of a defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Employee benefits *(continued)*

(ii) Defined benefit retirement plan obligations (continued)

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit and loss and allocated by function as part of "selling and distribution costs", "research and development expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit and loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the end of the reporting period on government bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

(iii) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax *(continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow 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.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group's business.

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

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

(i) Sale of goods

Revenue from the sales of goods (including smart card products, software and hardware) is recognised when customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative standalone selling price basis.

In the comparative period, revenue from sales of goods was recognised when the goods were delivered, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Revenue and other income *(continued)*

(ii) Provision of service

Revenue from provision of service are recognised when the related services are provided.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. Using the rate that exactly discounts estimated future cash receipts through the excepted life of the financial asset to the gross carrying amount of the financial asset.

(iv) Government subsidies

Government subsidies are recognised in the 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. Subsidies 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.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into HKD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired are translated into HKD at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that subsidiary outside Hong Kong is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing cost as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(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 a parent of the entity).

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

Close family members 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 22 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations. Other key sources of estimation uncertainty are as follows:

(a) Impairment of plant and equipment and intangible assets

If circumstances indicate that the carrying values of plant and equipment and intangible assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount. However, actual sales volumes, selling prices and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected. Details of the nature and carrying amounts of plant and equipment and intangible assets are disclosed in notes 12 and 13, respectively.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(b) Depreciation and amortisation

Plant and equipment and intangible assets (see notes 12 and 13) are depreciated and amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the estimated residual values, if any, of the assets at least annually in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods is adjusted if there are significant changes from previous estimates.

(c) Provision for expected credit losses of trade receivables

The Group's uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various debtors that have similar loss patterns. The provision matrix is based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. The information about the ECLs of the Group's trade receivables are disclosed in note 25(a). If the financial condition of the customers or the forecast economic conditions were to deteriorate, actual loss allowances would be higher than estimated.

(d) Write down of inventories

The Group performs regular reviews of the carrying amounts of inventories as disclosed in note 17 with reference to historical consumption, expected future consumption and management judgement. Based on these reviews, write down of inventories will be made when the estimated net realisable value of inventories decline below the carrying amount. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax benefits can be utilised, management's judgements is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. Details of the nature and carrying amounts of deferred tax assets are disclosed in note 23(b).

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the development, sales and distribution of smart card products, software and hardware, provision of smart card related services and provision of financial advisory services.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 *$'000*	2017 *$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major product or service lines		
– Sale of smart card products and provision of related services	137,685	166,272
– Advisory services	–	16,000
	137,685	182,272

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 4(b)(i) and 4(b)(iii) respectively.

The Group's customer base is diversified. None of the customers (2017: one customer) individually contributed over 10% of the Group's revenues. Revenue derived from this customer is as follow:

	2018 *$'000*	2017 *$'000*
Customer A	N/A#	23,677

The corresponding revenue did not contribute over 10% of the Group's revenue.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(a) Revenue *(continued)*

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is $14,336,000 This amount represents revenue expected to be recognised in the future from pre-completion sales contracts entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the service is provided, which is expected to occur over the next 12 to 36 months.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations that had an original expected duration of one year or less.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– The financial technology and smart living business mainly represents the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services; and

– The financial services and investment business mainly represents the provision of advisory services including financial due diligence and business operation consultancy services;

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets, current assets (including interest in a joint venture, deferred tax assets and current tax recoverable) with the exception of cash and cash equivalents which are centrally managed by the Group and other corporate assets. Segment liabilities include trade creditors attributable to the sales activities of the individual segments, employee retirement benefit liabilities, current tax payable and deferred tax liabilities with the exception of other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint venture.

The measure used for reporting segment profit is "profit/(loss) from operations". To arrive at "profit/(loss) from operations", the Group's profit is further adjusted for items not specifically attributed to individual segments, such as directors' remuneration, interest income, finance costs and other head office and corporate expenses.

In addition to receiving segment information concerning profit/(loss) from operations, management is provided with segment information concerning revenue, depreciation and amortisation and impairment loss and additions to non-current segment assets used by the segments in their operations.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results, assets and liabilities *(continued)*

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	Financial technology and smart living		Financial services and investment		Total	
	2018	2017	**2018**	2017	**2018**	2017
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Disaggregated by timing of revenue recognition						
Point in time	**137,048**	166,232	**–**	–	**137,048**	166,232
Over time	**637**	40	**–**	16,000	**637**	16,040
Reportable segment revenue	**137,685**	166,272	**–**	16,000	**137,685**	182,272
Reportable segment profit/(loss) from operations	**1,750**	12,251	**(16,098)**	5,664	**(14,348)**	17,915
Depreciation and amortisation for the year	**(12,515)**	(11,671)	**(285)**	(9)	**(12,800)**	(11,680)
Impairment losses of						
– trade and other receivables	**(1,923)**	(4,756)	**(4,000)**	–	**(5,923)**	(4,756)
– intangible assets	**(1,085)**	(281)	**–**	–	**(1,085)**	(281)
– goodwill	**–**	(1,172)	**–**	–	**–**	(1,172)
Reportable segment assets	**142,999**	134,129	**11,258**	30,649	**154,257**	164,778
Reportable segment liabilities	**27,988**	38,490	**26,218**	2,219	**54,206**	40,709
Additions to non-current segment assets during the year	**2,758**	2,699	**362**	116	**3,120**	2,815

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	2018	2017
	$'000	*$'000*
Revenue		
Reportable segment revenue	137,685	182,272
Consolidated revenue	137,685	182,272

	2018	2017
	$'000	*$'000*
Profit or loss		
Reportable segment (loss)/profit from operations	(14,348)	17,915
Interest income	237	157
Finance costs	–	(165)
Unallocated head office and corporate expenses	(9,436)	(11,454)
Consolidated (loss)/profit before taxation	(23,547)	6,453

	2018	2017
	$'000	*$'000*
Assets		
Reportable segment assets	154,257	164,778
Elimination of inter-segment receivables	(24,164)	(12,667)
	130,093	152,111
Unallocated head office and corporate assets	28,119	29,632
Consolidated total assets	158,212	181,743

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities (continued)

	2018 *$'000*	2017 *$'000*
Liabilities		
Reportable segment liabilities	**54,206**	40,709
Elimination of inter-segment payables	**(24,164)**	(12,667)
	30,042	28,042
Unallocated head office and corporate liabilities	**296**	–
Consolidated total liabilities	**30,338**	28,042

(iii) Geographic information

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's plant and equipment, intangible assets and interest in a joint venture ("specified non-current assets"). The geographic location of customers is based on the location at which the services were provided or the goods are delivered. The geographic location of the specified non-current assets is based on the physical location of the asset, in the case of plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets, and the location of the operations, in the case of interest in a joint venture.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(iii) Geographic information (continued)

	Revenue from external customers		Specified non-current assets	
	2018	2017	**2018**	2017
	$'000	*$'000*	***$'000***	*$'000*
The People's Republic of China ("PRC"), including Hong Kong and Macau (country of domicile)	**23,371**	38,639	**48,192**	51,243
United States	**17,623**	24,986	**–**	–
Japan	**13,170**	14,108	**–**	–
Republic of Fiji	**8,808**	23,677	**–**	–
The Republic of the Philippines ("Philippines")	**3,820**	6,354	**1,015**	1,027
Other countries	**70,893**	74,508	**–**	–
	114,314	143,633	**1,015**	1,027
	137,685	182,272	**49,207**	52,270

5 OTHER INCOME

	2018	2017
	$'000	*$'000*
Government subsidies*	**–**	1,186
Interest income	**237**	157
Sundry income	**192**	77
	429	1,420

* During the year ended 31 December 2017, the Group successfully applied for research and development subsidy and high and new technology enterprise subsidy from the PRC Government of $1,186,000. The purpose of the subsidies is to encourage innovation by granting financial assistance to commercial entities whose research and development projects meet certain criteria. No government subsidies were granted to the Group during the year ended 31 December 2018.

6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	2018 $'000	2017 $'000
(a) Finance costs:		
Interest on bank loans	–	192
Less: Interest expense capitalised into development costs*	–	(27)
	–	165

* No borrowing costs have been capitalised during the year ended 31 December 2018 (2017: at a rate of 3% per annum).

	2018 $'000	2017 $'000
(b) Staff costs:		
Contributions to defined contribution retirement plans	2,080	2,007
Net expenses recognised in respect of a defined benefit retirement plan (note 22)	324	287
Total retirement costs	2,404	2,294
Salaries, wages and other benefits	59,122	55,050
	61,526	57,344
Less: Amount capitalised into development costs	(5,253)	(7,616)
	56,273	49,728

6 (LOSS)/PROFIT BEFORE TAXATION *(continued)*

(Loss)/profit before taxation is arrived at after charging/(crediting): *(continued)*

	2018	2017 (Note)
	$'000	*$'000*
(c) Other items:		
Amortisation of intangible assets (note 13)	**9,919**	8,748
Depreciation (note 12)	**2,881**	2,932
Provision for impairment losses		
– trade receivables (note 25(a))	**4,410**	3,638
– other receivables	**–**	43
– amount due from a joint venture (note 16(b))	**1,513**	1,075
– intangible assets (note 13)	**1,085**	281
– goodwill (note 14)	**–**	1,172
Auditors' remuneration		
– audit services	**1,142**	1,056
– other services	**–**	190
Operating lease charges: minimum lease payments	**8,159**	6,953
Net loss on disposal of plant and equipment	**17**	12
Net foreign exchange (gain)/loss	**(1,621)**	500
Cost of inventories (note 17(b))	**62,646**	76,634

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2018 *$'000*	2017 *$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	–	2,212
Over-provision in respect of prior years	(53)	(19)
	(53)	2,193
Current tax – Philippines Income Tax		
Provision for the year	132	23
Current tax – Other jurisdictions		
Provision for the year	145	71
Deferred tax		
Origination and reversal of temporary differences (note 23(b))	(317)	(1,523)
Income tax (credit)/expense	(93)	764

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

(a) Taxation in the consolidated statement of profit or loss represents: *(continued)*

Notes:

(i) The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. The Company is not eligible for 8.25% tax band under the two-tiered tax regime introduced by the Hong Kong SAR Government in 2018 as this concession has been taken elsewhere in the Group to which the Company belongs.

(ii) The provision for Philippines Income Tax for 2018 is calculated at 30% (2017: 30%) of the estimated taxable income or 2% (2017: 2%) on gross income incurred for the year, whichever is higher, in accordance with the National Internal Revenue Code of the Philippines.

(iii) In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the PRC is 25%, except for the following companies:

(a) Logyi Limited ("Logyi")

Logyi was granted the "small and micro sized enterprise" status and enjoys the preferential corporate income tax rate of 10% from 2018 onwards (2017: 50% tax deduction and subject to corporate income tax rate of 12.5% between 2015 and 2017).

(b) ACS Technologies (Shenzhen) Limited ("ACS Shenzhen")

ACS Shenzhen was granted the "high and new technology enterprise" status and enjoys the preferential corporate income tax rate of 15% for three years between 2018 and 2020 (2017: preferential corporate income tax rate of 15% for three years between 2015 and 2017).

(iv) Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

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

	2018 *$'000*	2017 *$'000*
(Loss)/profit before taxation	(23,547)	6,453
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	(3,826)	224
Tax effect of non-deductible expenses	810	1,635
Tax effect of non-taxable income	(244)	(112)
Tax effect of unused tax losses not recognised	4,421	54
Tax effect of utilisation of tax losses previously not recognised	(31)	(359)
Tax effect of temporary differences not recognised	880	55
Tax effect of tax exemption/deduction from tax authority	(2,168)	(780)
Over-provision in respect of prior years	(53)	(19)
Others	118	66
Actual tax (credit)/expense	(93)	764

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors					
Mr. Tong Fu	–	1,467	–	15	1,482
Mr. Wong Chi Ho	–	1,200	–	18	1,218
Mr. Zheng Xuedong (appointed on 10 May 2018)	–	1,156	1,236	12	2,404
Mr. Cui Yijun (appointed on 10 May 2018)	–	358	–	–	358
Mr. Peng Fang (resigned on 10 May 2018)	–	605	–	3	608
Mr. Wang Ho (resigned on 31 July 2018)	–	1,526	–	11	1,537
Independent non-executive directors					
Mr. Guo Dan	240	–	–	–	240
Dr. Lin Tat Pang	240	–	–	–	240
Ms. Kaung Cheung Xi Dawn (resigned on 31 December 2018)	240	–	–	–	240
	720	6,312	1,236	59	8,327

8 DIRECTORS' EMOLUMENTS *(continued)*

	2017				
	Directors' fees *$'000*	Salaries, allowances and benefits in kind *$'000*	Discretionary bonuses *$'000*	Retirement scheme contributions *$'000*	Total *$'000*
Executive directors					
Mr. Wong Chi Ho	–	1,167	100	18	1,285
Mr. Peng Fang (appointed on 31 March 2017)	–	1,260	84	8	1,352
Mr. Wang Ho (appointed on 31 March 2017)	–	841	262	6	1,109
Mr. Tong Fu (appointed on 7 July 2017)	–	943	–	6	949
Ms. Tsui Kam Ling (resigned on 31 March 2017)	–	270	–	4	274
Mr. Wong Chi Kit (resigned on 31 March 2017)	–	267	–	5	272
Independent non-executive directors					
Ms. Kaung Cheung Xi Dawn	120	–	–	–	120
Mr. Guo Dan *(appointed on 27 June 2017)*	123	–	–	–	123
Dr. Lin Tat Pang *(appointed on 22 December 2017)*	6	–	–	–	6
Mr. Lo Kar Chun, *SBS, JP* *(resigned on 1 April 2017)*	30	–	–	–	30
Mr. Yim Kai Pung *(resigned on 30 September 2017)*	90	–	–	–	90
	369	4,748	446	47	5,610

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2017: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other individual (2017: two individuals) is as follow:

	2018	2017
	$'000	*$'000*
Salaries and other emoluments	**1,320**	1,956
Retirement scheme contributions	**18**	32
Discretionary bonuses	**150**	214
	1,488	2,202

The emoluments of the individual (2017: two individuals) with the highest emolument is within the following band:

	2018	2017
	Number of individuals	*Number of individuals*
$1,000,001 to $1,500,000	**1**	2

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

	2018			2017		
	Before-tax amount *$'000*	Tax expense *$'000*	Net-of-tax amount *$'000*	Before-tax amount *$'000*	Tax expense *$'000*	Net-of-tax amount *$'000*
Exchange differences on translation of financial statements of foreign operations	(1,604)	–	(1,604)	1,155	–	1,155
Remeasurement of defined benefit obligations	230	(69)	161	(246)	74	(172)
	(1,374)	(69)	(1,443)	909	74	983

11 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of $23,454,000 (2017: profit attributable to ordinary equity shareholders of the Company of $5,689,000) and the weighted average of 319,565,000 ordinary shares (2017: 319,565,000 ordinary shares) in issue during the year.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the year ended 31 December 2018 and 2017 are the same as the basic (loss)/earnings per share as there are no dilutive potential ordinary shares.

12 PLANT AND EQUIPMENT

	Leasehold improvements *$'000*	Furniture and fixtures *$'000*	Computer and office equipment *$'000*	Mould *$'000*	Motor vehicles *$'000*	Total *$'000*
Cost:						
At 1 January 2017	2,210	1,280	15,157	12,055	448	31,150
Exchange adjustments	36	7	90	–	–	133
Additions	719	315	1,259	522	–	2,815
Disposals	(874)	(388)	(922)	–	–	(2,184)
At 31 December 2017	2,091	1,214	15,584	12,577	448	31,914
Accumulated depreciation:						
At 1 January 2017	2,054	1,163	12,551	9,832	179	25,779
Exchange adjustments	32	6	65	–	–	103
Charge for the year	250	88	1,415	1,027	152	2,932
Written back on disposals	(874)	(387)	(909)	–	–	(2,170)
At 31 December 2017	1,462	870	13,122	10,859	331	26,644
Net book value:						
At 31 December 2017	629	344	2,462	1,718	117	5,270
At 1 January 2018	2,091	1,214	15,584	12,577	448	31,914
Exchange adjustments	(45)	(18)	(130)	–	(3)	(196)
Additions	518	–	824	1,778	–	3,120
Disposals	–	(4)	(136)	–	–	(140)
At 31 December 2018	2,564	1,192	16,142	14,355	445	34,698
Accumulated depreciation:						
At 1 January 2018	1,462	870	13,122	10,859	331	26,644
Exchange adjustments	(45)	(16)	(113)	–	(2)	(176)
Charge for the year	573	107	1,166	934	101	2,881
Written back on disposals	–	(4)	(119)	–	–	(123)
At 31 December 2018	1,990	957	14,056	11,793	430	29,226
Net book value:						
At 31 December 2018	574	235	2,086	2,562	15	5,472

13 INTANGIBLE ASSETS

	Development costs	Customer relationships	Technical know-how	Total
	$'000	*$'000*	*$'000*	*$'000*
Cost:				
At 1 January 2017	111,140	2,503	1,950	115,593
Addition through internal development	10,766	–	–	10,766
At 31 December 2017	121,906	2,503	1,950	126,359
Accumulated amortisation and impairment loss:				
At 1 January 2017	68,218	894	1,218	70,330
Charge for the year	7,903	358	487	8,748
Impairment loss	281	–	–	281
At 31 December 2017	76,402	1,252	1,705	79,359
Net book value:				
At 31 December 2017	45,504	1,251	245	47,000
Cost:				
At 1 January 2018	121,906	2,503	1,950	126,359
Addition through internal development	7,739	–	–	7,739
At 31 December 2018	129,645	2,503	1,950	134,098
Accumulated amortisation and impairment loss:				
At 1 January 2018	76,402	1,252	1,705	79,359
Charge for the year	9,318	356	245	9,919
Impairment loss	1,085	–	–	1,085
At 31 December 2018	86,805	1,608	1,950	90,363
Net book value:				
At 31 December 2018	42,840	895	–	43,735

13 INTANGIBLE ASSETS *(continued)*

The amortisation charges of $9,318,000 (2017: $7,903,000) and $601,000 (2017: $845,000) for the year are included in "research and development expenses" and "administrative expenses" respectively in the consolidated statement of profit or loss.

During the year, the directors assessed the recoverable amounts of projects under development. Based on their review, the net book value of certain projects under development was written down to the corresponding recoverable amount as it is estimated that there will be insufficient future economic benefits generated from these projects due to a change in market demand. Accordingly, an impairment loss amounting to $1,085,000 (2017: $281,000) was recognised.

14 GOODWILL

	$'000
Cost:	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,972
Accumulated impairment loss:	
At 1 January 2017	800
Impairment loss	1,172
At 31 December 2017, 1 January 2018 and 31 December 2018	1,972
Carrying amount:	
At 31 December 2018 and 31 December 2017	–

Impairment test for cash-generating unit containing goodwill

Goodwill arisen from the acquisition of certain assets and liabilities from independent third parties in the PRC in prior year. Therefore it is allocated to the Group's individual cash-generating unit ("CGU") of TaptoPay (Shenzhen) Limited that is expected to benefit from the business combination.

The recoverable amount of the CGU is determined based on value-in-use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

(Expressed in Hong Kong dollars unless otherwise indicated)

14 GOODWILL *(continued)*

Key assumptions used for the value-in-use calculation:

	2018	2017
Growth rate	N/A	0%
Pre-tax discount rate	N/A	18%

The growth rate is determined by management based on past performance. The discount rate used is pre-tax and reflects specific risks relating to the segment.

15 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activities
Advanced Card Systems Limited	Hong Kong	18,000,000 shares	100	100	–	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in Hong Kong
*Advanced Card Systems Japan Limited	Japan	100 shares of JPY1,000 each	100	–	100	Sales and distribution of smart card products, software and hardware and the provision of smart card related services in Japan
ACS Technologies Limited	Hong Kong	1 share	100	100	–	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the Philippines

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activities
*ACS Shenzhen	PRC	Registered capital of HK$14,000,000	100	–	100	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC
HNA Technology Investments Limited	Hong Kong	1 share	100	–	100	Provision of financial advisory services and investment holding in Hong Kong
*Logyi	PRC	Registered capital of HK$3,500,000	100	–	100	Development of smart card products, software and hardware and the provision of smart card related services in the PRC
TaptoPay Limited	Hong Kong	1 share	100	–	100	Development and provision of products and solutions for automatic revenue collection in Hong Kong

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total revenue constituting approximately 28% and 24% respectively of the related consolidated totals.

16 INTEREST IN A JOINT VENTURE

(a)

	2018	2017
	$'000	$'000
Share of net assets	–	–
Non-current receivables from a joint venture	–	–
	–	–

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activity
Goldpac ACS Technologies Inc. ("GATI")	Incorporated	Philippines	350,000 shares of 100 Pesos each	45	–	45	Card personalisation (Note)

Note: GATI was established by the Group with two other secure payment product suppliers to expand its smart card business in the Philippines.

GATI, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

(b) Amount due form a joint venture

The amount due from a joint venture included in "trade and other receivables" (see note 18) is unsecured, interest-free and recoverable on demand. At 31 December 2018, due to the fact that the joint venture suffered from continued losses in recent years, the directors assessed the recoverable amount of amount due from a joint venture to be $nil (2017: $1,665,000). Based on the assessment, a loss allowance of $1,513,000 (2017: $1,075,000) was recognised during the year.

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018	2017
	$'000	*$'000*
Raw materials	**19,902**	19,675
Work in progress	**1,294**	1,505
Finished goods	**14,995**	16,794
	36,191	37,974

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018	2017
	$'000	*$'000*
Carrying amounts of inventories sold	**61,565**	72,456
Write down of inventories	**1,081**	4,178
	62,646	76,634

All of the inventories are expected to be recovered within one year.

18 TRADE AND OTHER RECEIVABLES

	Note	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Trade receivables, net of loss allowance	(i), (ii)	**34,725**	46,875	47,805
Prepayments		**2,365**	2,054	2,054
Deposits paid		**1,939**	3,548	3,548
Other receivables		**522**	1,982	1,982
Amounts due from fellow subsidiaries (note 18(b))		**439**	215	215
Amount due from immediate holding company (note 18(b))		**–**	475	475
Amount due from a joint venture, net of loss allowance (note 16(b))		**–**	1,665	1,665
		39,990	56,814	57,744

Notes:

(i) Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables (see note 2(c)(i)).

(ii) Included in trade receivables is an amount due from a fellow subsidiary with a gross balance (before loss allowance) of $14,830,000 (2017: $16,000,000). The amount is unsecured, interest-free and past due for more than 1 year. As of the date of this consolidated financial statements, $4,000,000 in total was received from the fellow subsidiary as partial settlement of this amount (including $1,200,000 received prior to year-end). Management understand that the fellow subsidiary is currently contemplating certain asset disposals in the first half of 2019 and if completed, the proceeds from these asset disposals could be used to repay, inter alia, the outstanding amount due to the Group. However, the timing of these asset disposals is not certain and the fellow subsidiary also carries debts due to other external parties which may have higher priority than the amount due to the Group.

Upon evaluating the uncertainties pertaining to the amount due from the fellow subsidiary, the Group recorded a provision of expected credit loss of $4,000,000 based on its estimated probability-weighted outcome and reasonable and supportable information that is available.

The amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is $1,186,000 (2017: $1,135,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

18 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2018	2017
	$'000	*$'000*
Within 1 month	**9,906**	29,494
1 to 2 months	**3,920**	3,553
2 to 3 months	**4,163**	646
3 to 12 months	**181**	1,514
Over 1 year	**16,555**	12,598
	34,725	47,805

Trade receivables are generally due within 7 days to 3 months from the date of billing. Trade receivables in relation to sales of software and sales under solution business are due according to respective payment terms, which may exceed 3 months. For advisory services entered, invoices are due upon presentation. Further details on the Group's credit policy are set out in note 25(a).

(b) Amounts due from/(to) immediate holding company and fellow subsidiaries

The amount due from/(to) immediate holding company is unsecured, interest-free and recoverable on demand.

The amounts due from fellow subsidiaries are unsecured, interest-free and recoverable on demand.

19 OTHER FINANCIAL ASSETS

	2018	2017
	$'000	$'000
Financial assets measured at amortised cost		
Philippines Treasury bills	874	858

The treasury bills are listed outside Hong Kong and have a fixed yield of 3% (2017: 2.55%) per annum and will mature on 13 February 2019 (2017: 28 February 2018). The market value of these financial assets is $869,000 (2017: $886,000).

Prior to 1 January 2018, the treasury bills were classified as held-to-maturity financial assets and measured at amortised cost in accordance with HKAS 39.

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018	2017
	$'000	$'000
Cash at bank and on hand	23,990	22,442
Bank deposits maturing within three months when placed	3,947	7,190
Cash and cash equivalents	27,937	29,632

As at 31 December 2018, cash at bank and deposits of $2,632,000 (2017: $4,936,000) were placed with banks in the PRC. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

20 CASH AND CASH EQUIVALENTS *(continued)*

(b) Reconciliation of (loss)/profit before taxation to cash generated from operations:

	Note	2018	2017 (Note)
		$'000	*$'000*
(Loss)/profit before taxation		**(23,547)**	6,453
Adjustments for:			
Depreciation	6(c)	**2,881**	2,932
Amortisation of intangible assets	6(c)	**9,919**	8,748
Impairment losses on trade receivables	6(c)	**4,410**	3,638
Impairment losses on other receivables	6(c)	**–**	43
Impairment losses on amount due from a joint venture	6(c)	**1,513**	1,075
Impairment losses on intangible assets	6(c)	**1,085**	281
Impairment losses on goodwill		**–**	1,172
Finance costs	6(a)	**–**	165
Interest income	5	**(237)**	(157)
Net loss on disposal of plant and equipment	6(c)	**17**	12
Share of results of a joint venture		**–**	209
Effect of foreign exchange (gain)/loss		**(66)**	101
Changes in working capital:			
Decrease/(increase) in inventories		**1,668**	(7,806)
Decrease/(increase) in trade and other receivables		**8,471**	(4,257)
Increase in trade and other payables		**6,170**	4,333
Increase in employee retirement benefit obligations		**172**	266
Cash generated from operations		**12,456**	17,208

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

20 CASH AND CASH EQUIVALENTS *(continued)*

(c) Reconciliation of liabilities arising from financing activities

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

	Bank loans *$'000*
At 1 January 2017	14,222
Changes from financing cash flows:	
Repayment of bank loans	(14,222)
Interest paid	(192)
Total changes from financing cash flows	(14,414)
Other changes:	
Interest expenses (note 6(a))	165
Capitalised borrowing costs (note 6(a))	27
Total other changes	192
At 31 December 2017, 1 January 2018 and 31 December 2018	–

21 TRADE AND OTHER PAYABLES

	Note	2018 $'000	2017 $'000
Trade payables	(i)	12,541	10,856
Accruals		8,832	9,101
Receipt in advance from customers	(ii)	7,269	3,991
Amount due to immediate holding company (note 18(b))		285	–
		28,927	23,948

(i) As of the end of the reporting period, the ageing of trade payables, based on the invoice date, is as follows:

	2018 $'000	2017 $'000
Within 1 month	6,191	4,365
1 to 3 months	6,342	5,649
3 months to 1 year	6	80
Over 1 year	2	762
	12,541	10,856

21 TRADE AND OTHER PAYABLES *(continued)*

(ii) Typical payment terms which impact on the amount of contract liabilities recognised when the Group receives a deposit from customer before the production activity commences. This will give rise to contract liabilities at the start of a contract, until the revenue recognised exceeds the amount of the deposit. The Group typically receives a 50% deposit on acceptance of sales orders and was negotiated on a case by case basis with customers.

Movements in receipt in advance from customers

	2018 *$'000*
At 1 January	3,991
Decrease in receipt in advance from customers as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(2,839)
Decrease in receipt in advance from customers as a result of recognising revenue during the year	(21,111)
Increase in receipt in advance from customers as a result of receiving sales deposits during the year	27,224
Exchange adjustment	4
At 31 December	7,269

All of the trade and other payables are expected to be settled within one year.

22 EMPLOYEE RETIREMENT BENEFITS

The Group operates and participates in a number of defined contribution and defined benefit retirement plans in and outside Hong Kong.

(a) Defined contribution retirement plans

(i) The Group operates a Mandatory Provident Fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by an independent corporate trustee. Under the MPF scheme, the Group and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $30,000. Contributions to the MPF scheme vest immediately.

(ii) Pursuant to the relevant labour rules and regulations in the PRC, employees of the subsidiaries in the PRC are members of the central pension scheme operated by the PRC municipal government authorities. The Group is required to contribute a certain percentage of employees' remuneration to the central pension scheme to fund the benefits. The only obligation for the Group with respect to the central pension scheme is the associated required contribution under the central pension scheme. Contributions to the plan vest immediately.

(b) Defined benefit retirement plan

The Group makes contributions to a separate defined benefit retirement plan for qualifying employees in the Philippines. Contributions are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Employees are not required to contribute to the plan. The defined benefit plan is administrated by a trustee that is legally separated from the Group. The trustee shall be responsible for the general administration of the plan and the management of the fund and is required by the law to act in the best interest of the plan participants and responsible for the investment policy with regard to the assets of the fund. The benefits are based on the qualifying employees' latest monthly salary and the number of years of services.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuation. The latest actuarial valuation of the plan was at 31 December 2018 and was prepared by independent professionally qualified actuaries at E.M. Zalamea Actuarial Services, Inc. (who is a Member of the International Actuarial Association, Fellow of the Actuarial Society of the Philippines and Member of the International Association of consulting Actuaries), using the projected unit credit method. The actuarial valuation indicates that the Group's obligation under this defined benefit retirement plan is 23% (2017: 23%) covered by the plan assets held by the trustee.

22 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk.

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2018	2017
	$'000	*$'000*
Present value of wholly funded obligations	1,676	1,775
Fair value of plan assets	(383)	(402)
	1,293	1,373

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay $304,000 in contributions to defined benefit retirement plan in 2019 (2018: $155,000).

(ii) The major categories of the plan assets at the end of the reporting period are as follows:

	2018	2017
	$'000	*$'000*
Unit investment trust funds	383	402

The plan assets are valued by the fund manager of the pension fund at fair value using the mark-to-market valuation.

(iii) Movements in the present value of the defined benefit obligation

	2018	2017
	$'000	*$'000*
At 1 January	1,775	1,375
Remeasurement:		
– Actuarial (gains)/losses arising from changes in financial assumptions	(202)	*233*
Benefits paid by the plan	(213)	(140)
Current service cost	246	237
Interest cost	99	74
Exchange difference	(29)	(4)
At 31 December	1,676	1,775

The weighted average duration of the defined benefit obligation is 13.4 years (2017: 14.8 years).

22 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

(iv) Movements in plan assets

	2018	2017
	$'000	*$'000*
At 1 January	**402**	511
Contributions paid to the plan	**152**	22
Benefits paid by the plan	**(213)**	(140)
Return on plan assets, excluding interest income	**28**	(13)
Interest income	**21**	24
Exchange difference	**(7)**	(2)
At 31 December	**383**	402

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2018	2017
	$'000	*$'000*
Current service cost	**246**	237
Net interest on net defined benefit liability	**78**	50
Total amounts recognised in profit or loss	**324**	287
Actuarial (gains)/losses	**(202)**	233
Return on plan assets, excluding interest income	**(28)**	13
Total amounts recognised in other comprehensive income	**(230)**	246
Total defined benefit costs	**94**	533

The current service cost and the net interest on net defined benefit liability are recognised in the administrative expenses in the consolidated statement of profit or loss.

22 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

(vi) Significant actuarial assumptions and sensitivity analysis are as follows:

	2018	2017
Discount rate	**7.53%**	5.70%
Future salary increases	**5% per annum**	5% per annum

The below analysis shows how the defined benefit obligation as at 31 December 2018 would have (decreased)/increased as a result of 1% change in the significant actuarial assumptions:

	2018		2017	
	Increase in 1%	**Decrease in 1%**	Increase in 1%	Decrease in 1%
	$'000	***$'000***	*$'000*	*$'000*
Discount rate	**(203)**	**248**	(234)	291
Future salary increases	**252**	**(209)**	272	(224)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2018	2017
	$'000	*$'000*
Current tax recoverable	1,607	556
Current tax payable	(118)	(2,211)
	1,489	(1,655)

(b) Deferred tax (liabilities)/assets recognised:

The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Employee retirement benefits	Amortisation of intangibles	Tax losses	Provisions	Others	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Deferred tax arising from:							
At 1 January 2017	(272)	296	(1,094)	1,333	–	340	603
Exchange adjustments	–	(1)	–	–	–	–	(1)
Credited/(charged) to profit or loss	49	75	626	(935)	936	772	1,523
Credited to reserves	–	74	–	–	–	–	74
At 31 December 2017	(223)	444	(468)	398	936	1,112	2,199
At 1 January 2018	(223)	444	(468)	398	936	1,112	2,199
Exchange adjustments	(26)	(7)	–	–	(16)	8	(41)
(Charged)/credited to profit or loss	(37)	37	(852)	1,362	–	(193)	317
Charged to reserves	–	(69)	–	–	–	–	(69)
At 31 December 2018	(286)	405	(1,320)	1,760	920	927	2,406

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax (liabilities)/assets recognised: *(continued)*

Reconciliation to the consolidated statement of financial position

	2018	2017
	$'000	*$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	2,406	2,709
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	(510)
	2,406	2,199

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(s), the Group has not recognised deferred tax assets in respect of tax losses and other temporary differences of $39,256,000 (2017: $11,607,000) as it is not probable that future taxable profits against which the losses and other temporary differences can be utilised will be available in the relevant tax jurisdictions and entities.

Included in unrecognised tax losses and other temporary differences is an amount of $7,036,000 (2017: $4,970,000) which can be carried forward up to five years from the year in which the loss originated. The remaining balance of $32,220,000 (2017: $6,637,000) does not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2018, temporary differences relating to undistributed profits of subsidiaries amounted to $23,059,000 (2017: $19,200,000). Deferred tax liabilities of $1,153,000 (2017: $960,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital *$'000*	Share premium *$'000*	Retained profits *$'000*	Total equity *$'000*
Balance at 1 January 2017	31,956	53,383	10,028	95,367
Changes in equity for the year:				
Total comprehensive income for the year	–	–	(5,139)	(5,139)
Balance at 31 December 2017	31,956	53,383	4,889	90,228
Balance at 1 January 2018	31,956	53,383	4,889	90,228
Changes in equity for the year:				
Total comprehensive income for the year	–	–	(1,845)	(1,845)
Balance at 31 December 2018	31,956	53,383	3,044	88,383

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year

	2018	2017
	$'000	*$'000*
Final dividend proposed after the end of the reporting period of nil cent per ordinary share (2017: Nil cent per ordinary share)	–	–

(c) Share capital

Authorised and issued share capital

	2018		2017	
	Number of shares	Amount	Number of shares	Amount
	'000	*$'000*	*'000*	*$'000*
Authorised:				
Ordinary shares of $0.1 each	1,000,000	100,000	1,000,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	319,565	31,956	319,565	31,956

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (2009 Revision) of the Cayman Islands, the share premium of the Company is available for distributions or paying dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the payment of distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association, distribution shall be payable out of profits or other reserves, including the share premium account of the Company.

Included in the reserves of the Company available for the distribution is share premium arising from the issuance of Series A preference shares which were redeemed on 7 November 2003.

(ii) Merger reserve

Merger reserve of the Group represents reserve of a subsidiary that have been capitalised as a result of a share-for-share exchange in prior year.

(iii) Surplus reserve

Pursuant to the applicable PRC regulations, PRC entity is required to appropriate 10% of its profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that the balance after such issue is not less than 50% of its registered capital.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(v).

(e) Distributability of reserves

At 31 December 2018, the aggregate amount of reserve available for distribution to equity shareholders of the Company, including the distributable amounts disclosed in note 24(d)(i), was $56,427,000 (2017: $58,272,000).

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The Group's exposures to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables (including an amount due from a fellow subsidiary of trade nature (note 18(ii))). The Group's exposure to credit risk arising from cash and cash equivalents and other financial assets are limited because the counterparties are banks and financial institutions with a minimum credit rating of Baa2 assigned by Moody's Corporation, for which the group considers to have low credit risk. Management has a credit policy in place and the exposure to these credit risks are monitored on an on-going basis.

Trade receivables (including an amount due from a fellow subsidiary)

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 the reporting period, 1% (2017: 4%) and 18% (2017: 24%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables (including an amount due from a fellow subsidiary) *(continued)*

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables in relation to sales of smart card products and hardware are generally due within seven days to three months from the date of billing. For sales of software, sales under solution business, specific payment term such as payment by instalment or credit term of more than three months may be granted, which depends on the trading history of customers and nature of the project. For advisory services entered, invoices are due upon presentation. Normally, the Group does not obtain collateral from customers.

The Group does not provide any guarantees which would expose the Group to credit risk.

The Group measures loss allowances for trade receivables (including an amount due from a fellow subsidiary) at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group and the fellow subsidiary belongs to the same larger group, the Group considers the loss pattern associated with the fellow subsidiary may be different from other customers. The Group's historical credit loss experience does not indicate significantly different loss patterns for external customers, the loss allowance based on past due status is thus not further distinguished between the Group's different customer bases.

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

	Expected loss rate %	Gross carrying amount *$'000*	Loss allowance *$'000*
Current (not past due)	–	9,624	–
Less than 1 month past due	0.9%	8,211	74
1 to 3 months past due	1.1%	390	4
More than 3 months but less than 12 months past due	1.1%	22	–
More than 1 year past due (note 18)	33.4%	24,848	8,292
		43,095	8,370

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

***Trade receivables (including an amount due from a fellow subsidiary)** (continued)*

Expected loss rates are based on actual loss experience over the past 4 years. These rates are adjusted to reflect the factors that are specific to the debtors and differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(k)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of $3,120,000 was determined to be impaired.

The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 *$'000*
Neither past due nor impaired	12,680
Less than 1 month past due	19,986
1 to 3 months past due	638
More than 3 months but less than 12 months past due	1,383
More than 1 year past due	8,199
	30,206
	42,886

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

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

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Comparative information under HKAS 39 (continued)

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

	2018	2017
	$'000	*$'000*
Balance at 31 December 2017 under HKAS 39	3,120	
Impact on initial application of HKFRS 9 (note 2(c)(i))	930	
Balance at 1 January	4,050	327
Amounts written off during the year	–	(845)
Impairment losses recognised during the year	4,410	3,638
Exchange adjustments	(90)	–
Balance at 31 December	8,370	3,120

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

– increase in trade receivables past due over 1 year resulted in an increase in loss allowance of $4,410,000.

(b) Liquidity risk

The Group manage their cash management for daily operation, including placing short term bank deposits. Cash surplus over operating needs are closely monitored and managed by the Group's central cash and treasury management system. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate funding from the larger group of the Group to meet its liquidity requirements in the short and longer term. The Group's exposures to the liquidity risk and its policies for managing such risk were unchanged from the year ended 31 December 2017.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2018 Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Trade and other payables (excluding receipt in advance from customers)	21,658	–	–	21,658	21,658

	2017 Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Trade and other payables (excluding receipt in advance from customers)	19,957	–	–	19,957	19,957

(c) Interest rate risk

At 31 December 2018 and 2017, the Group was not exposed to any significant interest rate risks.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD") and Renminbi ("RMB").

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in HKD)			
	2018		2017	
	USD	RMB	USD	RMB
	$'000	*$'000*	*$'000*	*$'000*
Cash and cash equivalents	14,852	895	7,152	329
Amounts due from group companies	407	4,166	434	1,914
Trade and other receivables	15,990	5	20,034	105
Trade and other payables	(3,947)	(4,645)	(2,151)	(6,391)
	27,302	421	25,469	(4,043)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's (loss)/profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	Decrease/ (increase) in loss after taxation and increase/ (decrease) in retained profits *$'000*	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase In profit after taxation and retained profits *$'000*
RMB	5%	18	5%	(169)
	(5)%	(18)	(5)%	169

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' (loss)/profit after tax and equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis as 2017.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Fair value measurement

HKFRS 13, Fair value measurement categories fair value measurements into a three-level hierarchy. The level into which fair value is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

At 31 December 2018, the fair value of the treasury bills listed outside Hong Kong held by the Group was $869,000 (2017: $886,000) (see note 19). The costs of these financial assets measured at amortised cost are not materially different from their fair values at 31 December 2018 and 2017. These instruments fall into level 1 of the fair value hierarchy described above.

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The carrying amount of the Groups all other financial instruments carried at costs or amortised costs were not materially different from their fair values as at 31 December 2017 and 2018.

26 COMMITMENTS

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

	2018	2017
	$'000	*$'000*
Within 1 year	6,449	5,184
After 1 year but within 5 years	2,655	5,084
	9,104	10,268

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

27 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Transactions with related parties

(i)

	2018	2017
	$'000	*$'000*
Rental expenses charged by immediate holding company	1,033	–

(ii) On 2 November 2017, a wholly owned subsidiary of the Group (the "subsidiary") entered into a mandate (the "Mandate") with a fellow subsidiary pursuant to which the subsidiary was appointed as a consultant to the fellow subsidiary in connection with the provision of certain consultancy and advisory services. The service fees of the advisory services were pre-determined in the Mandate. Total service fee recorded for the year ended 31 December 2018 amounted to nil (2017: $16,000,000). As at 31 December 2018, the gross balance (before loss allowance) of $14,830,000 (2017: $16,000,000) remained unpaid and was included in trade and other receivables (note 18(ii)).

27 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with related parties *(continued)*

The related party transaction in respect of (i) above constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. However the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimis threshold under Rule 14A.76(1).

The related party transaction in respect of (ii) above constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the Report of the Directors.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 is as follows:

	2018	2017
	$'000	*$'000*
Short-term employee benefits	**10,558**	6,596
Post-employment benefits	**83**	51
	10,641	6,647

Total remuneration is included in "staff costs" (see note 6(b)).

28 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 $'000	2017 $'000
Non-current assets			
Investments in subsidiaries		**14,004**	14,004
Amount due from subsidiaries		**74,170**	76,780
		88,174	90,784
Current assets			
Other receivables		**182**	182
Amount due from immediate holding company		**50**	298
Cash and cash equivalents		**325**	237
		557	717
Current liabilities			
Other payables		**348**	841
Amount due to a fellow subsidiary		**–**	432
		348	1,273
Net current assets/(liabilities)		**209**	(556)
NET ASSETS		**88,383**	90,228
CAPITAL AND RESERVES			
Share capital	24(c)	**31,956**	31,956
Reserves		**56,427**	58,272
TOTAL EQUITY		**88,383**	90,228

Approved and authorised for issue by the Board of Directors on 27 March 2019.

Zheng Xuedong	Wong Chi Ho
Director	*Director*

(Expressed in Hong Kong dollars unless otherwise indicated)

29 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors consider the immediate parent and ultimate controlling party of the Group to be HNA EcoTech Pioneer Acquisition, which is incorporated in Cayman Islands and Hainan Province Cihang Foundation, which is established in PRC respectively.

These entities do not produce financial statements available for public use.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28*, Long-term interest in associates and joint ventures*	1 January 2019

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(continued)*

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

HKFRS 16, *Leases*

As disclosed in note 2(j), currently the Group classifies leases into operating leases.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(continued)*

HKFRS 16, *Leases* *(continued)*

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 26, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to $9,104,000 for properties, a portion of which is payable between 1 and 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to $6,402,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

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

FINANCIAL SUMMARY

31 December 2018
(Expressed in Hong Kong dollars)

	2018	2017	2016	2015	2014
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
RESULTS					
Revenue	**137,685**	182,272	152,284	234,526	246,323
Cost of sales and services	**63,315**	78,498	78,095	118,287	124,466
Gross profit	**74,370**	103,774	74,189	116,239	121,857
Gross profit margin	**54%**	57%	49%	50%	49%
(Loss)/profit for the year	**(23,547)**	5,689	(18,503)	20,304	23,724
Net profit margin	**–17%**	3%	–12%	9%	10%
ASSETS AND LIABILITIES					
Total assets	**158,212**	181,743	181,794	213,605	187,387
Total liabilities	**30,338**	28,042	34,765	82,755	70,300
Total equity	**127,874**	153,701	147,029	130,850	117,087