



ASX PRELIMINARY FINAL REPORT

eCargo Holdings Limited

ARBN 601 803 069

December 31, 2016

Lodged with ASX under Listing Rule 4.3A

This preliminary final report covers the consolidated entity, consisting of eCargo Holdings Limited and its controlled entities ("ECG" or the "Company"). The financial statements are presented in Hong Kong Dollars ("HK\$"), the official currency of Hong Kong, unless otherwise stated.

The report is based on accounts which are in the process of being audited.

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Details of the reporting period and the previous corresponding period

Reporting period: January 1, 2016 to December 31, 2016
 Prior corresponding period: January 1, 2015 to December 31, 2015

Results for announcement to the market

Key information

(HK\$)	Year ended December 31, 2016	Year ended December 31, 2015	% Change
Revenue from ordinary operations	124,470,119	118,083,994	5%
Loss after income tax expense	(87,717,542)	(52,904,861)	66%
Total comprehensive loss attributable to members of the Company	(88,117,208)	(54,491,129)	62%

Dividends

No dividends have been paid nor are any dividends proposed to be paid.

Consolidated Statement of Comprehensive Income

Please refer to Appendix 1 – page 1

Consolidated Statement of Financial Position

Please refer to Appendix 1 – page 2

Consolidated Statement of Changes in Equity

Please refer to Appendix 1 – page 4

Consolidated Statement of Cash Flows

Please refer to Appendix 1 – page 5

Additional dividend information

The Company has not declared any dividends.

Dividend reinvestment plan

The Company has no dividend reinvestment plan.

Net tangible asset backing

Net tangible asset backing per ordinary share at:

December 31, 2016	HK\$10.2 cents
December 31, 2015	HK\$21.1 cents

At December 31, 2016, there were 535,000,000 shares in issue, which would convert to a net asset backing of HK\$28.0 cents per share (December 31, 2015: HK\$44.5 cents per share).

Controlled entities acquired or disposed of

No controlled entities is being acquired or disposed of during the period.

Associates and joint venture entities

On July 25, 2016, ECG Digital Commerce Limited ("ECG Digital"), a wholly-owned subsidiary of ECG, entered into a joint venture deed (the "MM deed") with Walton Brown E-commerce Limited ("Walton Brown"), a company of The Lane Crawford Joyce Group. Pursuant to the MM deed, each of ECG Digital and Walton Brown agreed to pay RMB 60 million and RMB 90 million into a new joint venture company - MM E-commerce Limited ("MM"). On the same date, MM entered into a joint venture deed (the "WWE deed") with Novel Colour Limited ("WHL"), a wholly owned subsidiary of The Wharf (Holdings) Limited ("Wharf"). Pursuant to the WWE deed, MM and WHL agreed to pay RMB 150 million each into a new joint venture company - WWE & Company (BVI) Limited ("WWE"). WWE is a strategic investment of ECG, Walton Brown and Wharf that aims to develop a leading social shopping, fashion eCommerce platform in China, targeting the burgeoning Chinese fashion-conscious consumers.

During the year, the associate - Purecomm (UK) Limited continued to be loss making due to challenging conditions in its markets. Consequently there is significant uncertainty as to whether ECG will receive dividends or other returns from its investment in the future and therefore ECG fully impaired the carrying value of its investment.

Other significant information

Other than the details disclosed herein, there is no other information that needs to be disclosed to investors.

Foreign entities

The reports have been prepared under the Hong Kong Financial Reporting Standards.

Commentary on the operations and results

ECG generated revenue of HK\$124.5 million (2015: HK\$118.1 million) of which HK\$52.6 million (2015: HK\$58.3 million) was attributable to eCommerce-enabling business and HK\$71.9 million (2015: HK\$59.8 million) contributed by Amblique.

ECG incurred net loss of HK\$87.7 million (2015: HK\$52.9 million loss) and a loss before interest, tax, depreciation and amortisation ("EBITDA loss") of HK\$52.7 million (2015: HK\$37.3 million loss), excluding impairment on and results from associates.

The increase in this year's net loss compared to the previous year's was mainly attributable to (i) Amblique turning from net profit of HK\$4.2 million to net loss of HK\$9.2 million this year due to less-than-expected new contracts concluded; (ii) more resources having been invested in personnel for the eCommerce-enabling business of approximately HK\$10 million; and (iii) the reduction of the remaining useful life of key software intangible assets to benchmark similar software solutions available in the market resulted in an increase in amortisation expenses which resulted in an additional non-cash impact to the net loss for the year.

The fall in eCommerce-enabling business revenue was mainly due to the decrease in eFulfillment revenue as several clients of lower profit margin were terminated. This decrease

was partially offset by the more-than-double increase in both eOperations and eStudio revenues. As a result, gross profit margins arise from this segment increased to 37%, exceeding the 28% margin of 2015. Whilst many of the online stores operated by eOperations are still in their early years, we had already seen the growth momentum and the receptiveness of Chinese consumers to these international merchants. The growth of eOperations and the ancillary eStudio services is evidence of the success of our strategy of bringing international brands into China's eCommerce consumer market.

Amblique's revenue increased by 20% over the year yet gross profit margin decreased from 75% to 59%. This was caused by a drop in new business revenues from website development and implementation which would normally command a higher margin. On the other hand, its business on the maintenance of websites had continued to grow. During the second half of 2016, with the restructuring of the sales team, we immediately saw healthy pipelines and were able to close significant contracts with major retailers such as Surfstitch and Super Retail Group. Barring unforeseen circumstances, we are cautiously optimistic that Amblique will be able to return to profit in 2017.

During the year, ECG continued its strategy of exploring potential opportunities that could create synergies with its existing businesses and bring long-term value to ECG and its shareholders. Following its 2015 acquisition of Amblique, in August 2016, ECG partnered with Walton Brown (Hong Kong) Limited, a company of The Lane Crawford Joyce Group, and a subsidiary of The Wharf (Holdings) Limited (SEHK:0004), to form WWE & Company (BVI) Limited ("WWE"), an investment entity, to pursue investment opportunities in the development of social mobile shopping technologies in China. WWE has invested in MyMM Holdings Limited ("MyMM"), which aims to develop a leading social shopping, fashion eCommerce platform in China, targeting the burgeoning Chinese fashion-conscious consumers. WWE is initially funded with RMB300 million [A\$58.5 million], of which RMB60 million [A\$11.7 million] was invested by ECG, for an effective interest of 20%. Official launch of MyMM is expected in the third-quarter of 2017.

Statement as to the audit status

The report is based on accounts which are in the process of being audited. The Company expects that the audit, when completed, will result in an unqualified audit opinion.

eCARGO HOLDINGS LIMITED

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2016

eCARGO HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 HK\$	2015 HK\$
Revenue	6	124,470,119	118,083,994
Cost of sales	7	(62,271,242)	(56,880,536)
Gross profit		<u>62,198,877</u>	<u>61,203,458</u>
Selling and distribution expenses	7	(14,743,679)	(7,164,245)
Administrative expenses	7	(115,188,750)	(80,967,921)
Research and development expenses	7	(16,300,589)	(14,552,032)
Operating loss		<u>(84,034,141)</u>	<u>(41,480,740)</u>
Other losses – net	10	(1,387,816)	(10,832,639)
Finance income	11	571,100	1,096,227
Finance expense	11	(209,189)	-
Finance income – net	11	<u>361,911</u>	<u>1,096,227</u>
Share of results of associates	17	153,853	(780,992)
Provision for impairment of interest in an associate	17	(5,028,427)	-
Loss before income tax		<u>(89,934,620)</u>	<u>(51,998,144)</u>
Income tax credit/(expense)	12	2,217,078	(906,717)
Loss for the year		<u>(87,717,542)</u>	<u>(52,904,861)</u>
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		(399,666)	(1,586,268)
Total comprehensive loss for the year		<u>(88,117,208)</u>	<u>(54,491,129)</u>
Loss per share for loss attributable to owners of the Company			
- Basic and diluted (HK cents per share)	13	<u>(16.39)</u>	<u>(9.89)</u>

The notes on pages 6 to 49 are an integral part of these consolidated financial statements.

eCARGO HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

	Note	2016 HK\$	2015 HK\$
Assets			
Non-current assets			
Property, plant and equipment	14	4,526,109	5,601,664
Intangible assets	15	95,381,946	125,182,970
Interest in associates	17	70,459,815	5,213,814
Deferred income tax assets	24	2,778,187	1,581,322
Deposits	20	869,850	620,486
		<u>174,015,907</u>	<u>138,200,256</u>
Current assets			
Trade receivables	19	23,602,377	31,338,989
Prepayments, deposits and other receivables	20	1,683,986	8,612,894
Amounts due from related parties	30	8,301,962	10,539,228
Current income tax assets		1,815,019	-
Cash and cash equivalents	21	6,386,966	97,332,110
		<u>41,790,310</u>	<u>147,823,221</u>
Total assets		<u><u>215,806,217</u></u>	<u><u>286,023,477</u></u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	25	329,401,285	329,401,285
Currency translation reserve		(1,985,934)	(1,586,268)
Accumulated losses		(177,383,765)	(89,666,223)
Total equity		<u><u>150,031,586</u></u>	<u><u>238,148,794</u></u>

eCARGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2016

	Note	2016 HK\$	2015 HK\$
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	24	4,620,837	4,121,759
Borrowing	27	19,969,189	-
		<u>24,590,026</u>	<u>4,121,759</u>
		-----	-----
Current liabilities			
Trade payables	22	10,116,781	6,105,108
Other payables and accruals	22	19,930,654	23,933,849
Amounts due to related parties	30	11,137,170	11,043,037
Obligation under finance lease	23	-	270,227
Current income tax liabilities		-	2,400,703
		<u>41,184,605</u>	<u>43,752,924</u>
		-----	-----
Total liabilities		<u>65,774,631</u>	<u>47,874,683</u>
		=====	=====
Total equity and liabilities		<u>215,806,217</u>	<u>286,023,477</u>
		=====	=====

The notes on pages 6 to 49 are an integral part of these consolidated financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Share capital HK\$	Currency Translation reserve HK\$	Accumulated losses HK\$	Total equity HK\$
Balance at 1 January 2015	329,401,285	-	(36,761,362)	292,639,923
Comprehensive loss				
Loss for the year	-	-	(52,904,861)	(52,904,861)
Other comprehensive loss				
Currency translation differences				
- ECG	-	(1,412,199)	-	(1,412,199)
- Associate	-	(174,069)	-	(174,069)
Total comprehensive loss for the year	-	(1,586,268)	(52,904,861)	(54,491,129)
Balance at 31 December 2015	329,401,285	(1,586,268)	(89,666,223)	238,148,794
Balance at 1 January 2016	329,401,285	(1,586,268)	(89,666,223)	238,148,794
Comprehensive loss				
Loss for the year	-	-	(87,717,542)	(87,717,542)
Other comprehensive loss				
Currency translation differences				
- ECG	-	(272,241)	-	(272,241)
- Associate	-	(127,425)	-	(127,425)
Total comprehensive loss for the year	-	(399,666)	(87,717,542)	(88,117,208)
Balance at 31 December 2016	329,401,285	(1,985,934)	(177,383,765)	150,031,586

The notes on pages 6 to 49 are an integral part of these consolidated financial statements.

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 HK\$	2015 HK\$
Cash flows from operating activities			
Cash used in operations	26	(34,787,719)	(45,382,782)
Income tax paid		(2,775,533)	(827,974)
		<hr/>	<hr/>
Net cash used in operating activities		(37,563,252)	(46,210,756)
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(1,277,107)	(5,044,107)
Purchase of intangible assets	15	(2,109,571)	(2,191,160)
Proceeds of disposal of property, plant and equipment	26	240,235	136,347
Investment of subsidiary, net of cash acquired	26	-	(25,485,652)
Investment in an associate	17	(70,248,000)	(6,168,875)
Interest received	11	571,100	1,096,227
		<hr/>	<hr/>
Net cash used in investing activities		(72,823,343)	(37,657,220)
		<hr/>	<hr/>
Cash flows from financing activities			
Repayments of obligation under finance lease		(270,227)	(259,765)
Proceeds from borrowing		19,969,189	-
		<hr/>	<hr/>
Net cash generated from/(used in) financing activities		19,698,962	(259,765)
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(90,687,633)	(84,127,741)
Cash and cash equivalents at beginning of year		97,332,110	191,070,888
Exchange loss on cash and cash equivalents		(257,511)	(9,611,037)
		<hr/>	<hr/>
Cash and cash equivalents at end of year	21	6,386,966	97,332,110
		<hr/>	<hr/>

The notes on pages 6 to 49 are an integral part of these consolidated financial statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The Company and its subsidiaries, collectively, ECG are principally engaged in the development and provision of eCommerce technologies, integrated offline and online supply chain operations, and provision of digital commerce solutions and services.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 13103N, ATL Logistics Centre B, 3 Kwai Chung Container Terminals, New Territories, Hong Kong.

These consolidated financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated.

2 Basis of preparation and summary of significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of ECG have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which is a collective term for all individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirement of the Hong Kong Companies Ordinance (Cap.622).

2.2 Basis of preparation of the financial statements

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying ECG's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to the financial statements.

(a) Change of estimated useful live of intangible asset

ECG has significant intangible assets (other than goodwill) and is required to estimate the useful lives of intangible assets (other than goodwill) in order to ascertain the amount of amortisation charges for each reporting period. Estimates of useful lives are made at the time of purchase of these assets after considering technology advancement, business developments and ECG's strategies. ECG reviews the appropriateness of the estimated useful lives annually and extends or shortens the useful lives according to the results of the review.

During the year ended 31 December 2016, ECG reviewed the estimated useful lives of certain software of ECG with reference to ECG's operational management and technological advancements. The review resulted in changes to the estimated useful lives and ECG has applied changes in useful lives prospectively as these are considered as changes in accounting estimates. As a result of such changes, ECG's amortisation charges increased by HK\$16,434,783 during the year ended 31 December 2016.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.2 Basis of preparation of the financial statements (Continued)

(b) New standards and interpretations not yet adopted

New standards amendments and interpretations to existing standard that have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted by ECG:

		Effective for accounting periods beginning on or after
HKAS 7 (Amendment)	Statement of cash flows	1 January 2017
HKAS 12 (Amendment)	Income taxes	1 January 2017
HKFRS 9 (2014)	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended 31 December 2016 and have not been early adopted in these financial statements.

None of the above is expected to have a significant effect on the consolidated financial statements of ECG, except the following set out below:

(i) HKFRS 15 - "Revenue from contracts with customers"

The application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15. At this stage, ECG is in the process of assessing the impact of HKFRS 15 on the ECG's financial statements.

(ii) HKFRS 16 - "Leases"

HKFRS 16 will affect primarily the accounting for ECG's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised in the consolidated statement of financial position. ECG is in the process of assessing to what extent the operating lease commitments as disclosed in Note 28 will result in the recognition of an asset and a liability for future payments and how this will affect ECG's profit and classification of cash flows.

There are no other amendments and new or amended standards that are not yet effective that would be expected to have a significant impact on ECG's results of operations and financial position.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which ECG has control. ECG controls an entity when ECG is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to ECG. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated.

2.3.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Associates

An associate is an entity over which ECG has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. ECG's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and ECG's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

ECG's share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When ECG's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, ECG does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

ECG determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, ECG calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated statement of comprehensive income.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.4 Associates (Continued)

Profits and losses resulting from upstream and downstream transactions between ECG and its associate are recognised in ECG's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by ECG.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments and making strategic decisions. The CODM are the key Management personnel of ECG and may include Directors.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the entities of ECG are measured using the currency of the primary economic environment in which the entities operate (the "functional currency"). The consolidated financial statements are presented in HK\$ which is the Company's functional and presentation currency and ECG's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised within administrative expenses in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of comprehensive income within "other losses – net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.6 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all ECG entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to ECG and that cost of the item can be measured reliably. The carrying amount of the replaced part is recognised. All other repairs and maintenance are expensed in the consolidated statement of comprehensive income during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	over the shorter of remaining lease term and useful life
Furniture and fixtures	20%
Office equipment	20%
Computer equipment	33.33%
Motor vehicle	33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within administrative expenses in the consolidated statement of comprehensive income.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the CGU level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Brand name

The brand name acquired in a business combination is recognised at fair value at the acquisition date. The brand has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over its estimated useful life of 10 years.

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationships of 5 years.

(d) Software

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by ECG are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.8 Intangible assets (Continued)

(d) Software (Continued)

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed ten years. The amortisation expense is recognised in administrative expenses of the consolidated statement of comprehensive income.

2.9 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

ECG classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting year. These are classified as non-current assets. ECG's loans and receivables comprise trade receivables, deposits and other receivables, amounts due from related parties and cash and cash equivalents in the consolidated statement of financial position.

Loans and receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

2.11 Impairment of financial assets - assets carried at amortised cost

ECG assesses at the end of each reporting year whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.11 Impairment of financial assets - assets carried at amortised cost (Continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, ECG may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax from the proceeds.

2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

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

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

2.18 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of statement of financial position in the countries where ECG, its subsidiaries and its associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

(i) Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of statement of financial position and are expected to apply when the related deferred income tax asset is recognised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.18 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

(ii) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by ECG and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of statement of financial position. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Bonus plan

The expected cost of bonus payment is recognised as a liability when ECG has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plan are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) Pension obligations

ECG companies incorporated in Hong Kong operate a defined contribution plan, which is the Mandatory Provident Fund Scheme ("MPF Scheme") established under and pursuant to the Mandatory Provident Fund Ordinance.

The MPF Scheme is generally funded by the payments from employees and by ECG. Contributions to the scheme by ECG and employees are calculated as a percentage of employees' basic salaries. ECG has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

ECG's contributions to defined contribution plan are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.19 Employee benefits (Continued)

(c) Pension obligations (Continued)

The assets of the scheme are held in separate trustee-administered funds.

ECG companies incorporated in the PRC and Australia contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC and Australia on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and ECG has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of ECG.

2.20 Provisions

Provisions are recognised when ECG has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the rendering of services, in the ordinary course of ECG's activities.

ECG recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to ECG; and when specific criteria have been met for each of ECG's activities, as described below.

(a) Sales of services

For sales of services, revenue is recognised in the accounting period in which the services are rendered or by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

2.22 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, ECG reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Basis of preparation and summary of significant accounting policies (Continued)

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

ECG leases certain property, plant and equipment. Leases of property, plant and equipment where ECG has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant, and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

3 Financial risk management

3.1 Capital management

ECG's objectives when managing capital are to safeguard ECG's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

ECG actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of ECG and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. In order to maintain or adjust the capital structure, ECG may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3.2 Credit risk

At the date of the consolidated financial position, 35% (2015: 48%) of the total receivable was due from ECG's largest five debtors. Accordingly, ECG's consolidated results would be heavily affected by the financial capability of these debtors to fulfill their obligations with ECG. ECG's credit risk monitoring activities relating to the debtors include review of the credit profile, business prospects, background and their financial capacity.

Substantially all of the bank deposits and cash at banks are held in a major financial institution, which Management believes are of high credit quality.

3.3 Liquidity risk

ECG adopts prudent liquidity risk management and maintains sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

The contractual undiscounted cash flows of ECG's financial liabilities, which include trade and other payables and amounts due to related parties, are due within 12 months and approximate their carrying amounts as the impact of discounting is not significant.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.4 Foreign exchange risk

ECG mainly operates in Hong Kong, the PRC and Australia, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Renminbi (“RMB”), Australian Dollars (“A\$”), United States Dollars (“US\$”), British Pound Sterling (“GBP”), Singapore Dollars (“SG\$”), and New Zealand Dollars (“NZ\$”).

Foreign exchange risk arises mainly from future commercial transactions, recognised assets and liabilities.

ECG manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposure. ECG currently does not have a foreign currency hedging policy.

At 31 December 2016, if HK\$ had strengthened/weakened by 5% against the A\$ with all other variables held constant, post-tax loss for the year would change by approximately HK\$89,000 (2015: HK\$38,000), mainly as a result of foreign exchange gains/losses on translation of trade receivables and other receivables, trade and other payables and bank deposits denominated in the A\$.

At 31 December 2016, if HK\$ had strengthened/weakened by 5% against the RMB with all other variables held constant, post-tax loss for the year would change by approximately HK\$214,000 (2015: HK\$2,143,000), mainly as a result of foreign exchange gains/losses on translation of trade receivables and other receivables, trade and other payables and bank deposits denominated in the RMB.

At 31 December 2016, if HK\$ had strengthened/weakened by 5% against the SG\$ with all other variables held constant, post-tax loss for the year would change by approximately HK\$30,000 (2015: HK\$65,000), mainly as a result of foreign exchange gains/losses on translation of trade receivables denominated in the SG\$.

At 31 December 2016, if HK\$ had strengthened/weakened by 5% against the NZ\$ with all other variables held constant, post-tax loss for the year would change by approximately HK\$69,000 (2015: HK\$185,000), mainly as a result of foreign exchange gains/losses on translation of trade receivables, trade and other payables and bank deposits denominated in the NZ\$.

At 31 December 2016, if HK\$ had strengthened/weakened by 5% against the GBP with all other variables held constant, post-tax loss for the year would change by approximately HK\$20,000 (2015: HK\$60,000), mainly as a result of foreign exchange gains/losses on translation of trade receivables, trade and other payables and bank deposits denominated in the GBP.

The foreign exchange exposure for the US\$ is considered minimal as HK\$ is pegged with the US\$.

3.5 Cash flow and fair value interest rate risk

ECG’s interest rate risk arises from borrowing, which is issued at variable rate exposes ECG to cash flow interest rate risk which is partially offset by cash held at variable rates. ECG currently does not hedge its exposure to cash flow and fair value interest rate risk. ECG analyses its interest rate exposure on a regular basis and will consider the interest rate exposure when enter into any financing, renewal of existing positions and alternative financing transactions.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.5 Cash flow and fair value interest rate risk (Continued)

ECG's practice is to manage its interest income/cost through monitoring and reviewing interest rate changes in the market and its impact to the ECG's financial performance. During the year, ECG's borrowing at variable rate was denominated in HK\$.

At 31 December 2016, if interest rate on borrowing held at variable rate had been 50 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been approximately HK\$825,000 (2015: HK\$Nil) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowing.

3.6 Fair value estimation

ECG's financial instruments include cash and cash equivalents, trade receivables, deposits and other receivables, amounts due from related parties, trade and other payables, amounts due to related parties and borrowing. The carrying amounts less impairment of these balances are a reasonable approximation of their fair values due to their short term maturities.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

ECG makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment assessment of long-lived assets

At the end of each reporting period, ECG reviews internal and external sources of information to identify indications that the following classes of asset 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,
- Intangible assets; and
- Interest in associates.

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. An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilised to identify indications of impairment are often subjective in nature and ECG is required to use judgment in applying such information to its business. ECG's interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Critical accounting estimates and judgments (Continued)

(a) Impairment assessment of long-lived assets (Continued)

If an indication of impairment is identified, such information is further subject to an exercise that requires ECG to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on ECG's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, ECG may perform such assessments utilising internal resources or ECG may engage external advisors for counsel. Regardless of the resources utilised, ECG is required to make assumptions to make these assessments, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

(b) Estimated useful lives of intangible assets

ECG has significant intangible assets (other than goodwill) and is required to estimate the useful lives of intangible assets (other than goodwill) in order to ascertain the amount of amortisation charges for each reporting period. Estimates of useful lives are made at the time of purchase of these assets after considering technology advancement, business developments and ECG's strategies. ECG reviews the appropriateness of the estimated useful lives annually and extends or shortens the useful lives according to the results of the review.

During the year ended 31 December 2016, ECG reviewed the estimated useful lives of certain software of ECG with reference to ECG's operational management and technological advancements. The review resulted in changes to the estimated useful lives and ECG has applied changes in useful lives prospectively as these are considered as changes in accounting estimates. As a result of such changes, ECG's amortisation charges increased by HK\$16,434,783 during the year ended 31 December 2016.

5 Segment information

Management have determined the operating segments based on the information reviewed by the Board of Directors for the purpose of allocating resources and assessing performance.

The CODM considers the business from both geographic and services perspective and concluded the segments as eCommerce Business Services in Greater China ("Greater China") and eCommerce Solution Services in Australia ("Australia"). The CODM assesses and measures the operating performance of ECG based on the revenue, gross profit and EBITDA (excluding net foreign exchange loss) as Management believes that such information is the most relevant in evaluating the results of ECG's segments. EBITDA loss excluding impact of foreign exchange represents loss before income tax, depreciation of property, plant and equipment, amortisation of intangible assets, gain or loss on disposal of property, plant and equipment, net finance income, ECG's share of results of associates and provision for impairment of interest in an associate.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Segment information (Continued)

Information regarding ECG's reportable segments as provided to ECG's CODM is set out below:

	Greater China HK\$	Australia HK\$	2016 Eliminations HK\$	Consolidated HK\$
Revenue				
External revenue	<u>52,577,840</u>	<u>71,892,279</u>	<u>-</u>	<u>124,470,119</u>
Gross profit	<u>19,638,827</u>	<u>42,560,050</u>	<u>-</u>	<u>62,198,877</u>
Results				
EBITDA – excluding foreign exchange loss	<u>(43,992,393)</u>	<u>(7,342,171)</u>	<u>-</u>	<u>(51,334,564)</u>
	Greater China HK\$	Australia HK\$	2015 Eliminations HK\$	Consolidated HK\$
Revenue				
External revenue	<u>58,264,131</u>	<u>59,819,863</u>	<u>-</u>	<u>118,083,994</u>
Gross profit	<u>16,257,925</u>	<u>44,945,533</u>	<u>-</u>	<u>61,203,458</u>
Results				
EBITDA – excluding foreign exchange loss	<u>(31,650,220)</u>	<u>5,144,014</u>	<u>-</u>	<u>(26,506,206)</u>

A reconciliation of total segment EBITDA to loss before income tax is provided as follows:

	2016 HK\$	2015 HK\$
Total segment EBITDA – excluding foreign exchange loss	(51,334,564)	(26,506,206)
Net foreign exchange loss (Note 10)	(1,387,816)	(10,832,639)
Gain on disposal of property, plant and equipment (Note 26)	41,257	44,739
Depreciation of property, plant and equipment (Note 14)	(1,964,044)	(1,561,098)
Amortisation of intangible assets (Note 15)	(30,776,790)	(13,458,175)
Finance income, net (Note 11)	361,911	1,096,227
Share of results of associates (Note 17)	153,853	(780,992)
Provision for impairment of interest in an associate	(5,028,427)	-
	<u>(89,934,620)</u>	<u>(51,998,144)</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Segment information (Continued)

The following table sets out information about the geographical location of ECG's revenue from external customers.

		2016 HK\$	2015 HK\$
Revenue from external customers			
Greater China		52,577,840	58,264,131
Australia and New Zealand		71,892,279	59,819,863
		<u>124,470,119</u>	<u>118,083,994</u>
Assets			
		2016	
			Additions to non-current assets (excluding additions upon business acquisition) HK\$
	Total assets HK\$	Interest in associates HK\$	
Greater China	158,338,791	70,459,815	1,124,202
Australia	54,689,239	-	2,262,476
	<u>213,028,030</u>	<u>70,459,815</u>	<u>3,386,678</u>
Deferred income tax assets	2,778,187		
	<u>215,806,217</u>		
		2015	
			Additions to non-current assets (excluding additions upon business acquisition) HK\$
	Total assets HK\$	Interest in associates HK\$	
Greater China	221,522,133	5,213,814	5,094,328
Australia	62,920,022	-	2,409,063
	<u>284,442,155</u>	<u>5,213,814</u>	<u>7,503,391</u>
Deferred income tax assets	1,581,322		
	<u>286,023,477</u>		

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Segment information (Continued)

Information about major customer

For the year ended 31 December 2016, the analysis of revenue from customer contributing 10% or more of ECG's total revenue is as follows:

	Year ended 31 December 2016 HK\$
Customer A	12,042,122

For the year ended 31 December 2015, there is no single external customer contributing 10% or more of ECG's total revenue.

6 Revenue

Service income recognised during the year was as follows:

	2016 HK\$	2015 HK\$
Revenue		
- Service income	124,470,119	118,083,994

7 Expenses by nature

	2016 HK\$	2015 HK\$
Outsourced services fulfilment expenses, included in cost of sales	27,399,255	40,390,832
Outsourced web development and IT consultation costs, included in cost of sales	5,539,758	5,316,223
Subscription expense for software application, included in cost of sales	29,332,229	11,173,481
Auditor's remuneration	1,490,000	1,380,000
Employee benefit expenses (Note 8)	88,704,579	64,297,275
Outsourced labour costs (Note 30)	2,079,889	3,700,700
Amortisation of intangible assets (Note 15)	30,776,790	13,458,175
Depreciation of property, plant and equipment (Note 14)	1,964,044	1,561,098
Legal and professional expenses	4,244,701	4,175,524
Travel expenses	3,888,714	3,850,341
Operating leases rental	4,518,449	4,058,568
IT expenses	2,774,404	1,097,412
Marketing expenses	1,112,783	1,660,075
Utilities and maintenance expenses	427,026	445,128
Telecommunication expenses	499,106	406,256
Insurance expenses	170,902	203,357
Gain on disposal of property, plant and equipment (Note 26)	(41,257)	(44,739)
Provision for impairment of trade receivables (Note 19)	708,897	3,016
Other expenses	2,913,991	2,432,012

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Employee benefit expenses (including Directors' emoluments)

	2016 HK\$	2015 HK\$
Wages and salaries	80,176,145	60,752,916
Pension costs	5,278,503	2,836,891
Other employee benefits and welfare	3,249,931	707,468
	<u>88,704,579</u>	<u>64,297,275</u>

9 Benefits and interests of Directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G))

(a) Directors' emoluments

The remuneration of each Director is set out below:

For the year ended 31 December 2016:

Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company undertaking:

	<u>Fees</u>	<u>Salary</u>	<u>Others*</u>	<u>Employer's contribution to a retirement benefit scheme</u>	<u>Remunerations paid or receivable in respect of accepting office as Director</u>	<u>Emoluments paid or receivable in respect of Director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking</u>	<u>Total</u>
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Mr. John Lau	432,000	-	-	-	-	-	432,000
Mr. Christopher Lau	432,000	3,408,000	-	18,000	-	-	3,858,000
Mr. Rupert Myer AO#	404,937	-	-	-	-	-	404,937
Mr. Christopher Ryan#	347,089	-	-	-	-	-	347,089
Mr. Heath Zarin#	404,937	-	-	-	-	-	404,937
	<u>2,020,963</u>	<u>3,408,000</u>	<u>-</u>	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>5,446,963</u>

#: Independent Non-Executive Directors

*: Included discretionary bonuses, housing allowance and estimated money value of other benefits

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Benefits and interests of Directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2015:

Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company undertaking:

				Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as Director	Emoluments paid or receivable in respect of Director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	<u>Fees</u>	<u>Salary</u>	<u>Others*</u>	<u>scheme</u>	<u>as Director</u>	<u>undertaking</u>	<u>Total</u>
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Mr. John Lau	432,000	-	-	-	-	-	432,000
Mr. Christopher Lau	432,000	1,742,000	-	18,000	-	-	2,192,000
Mr. Rupert Myer AO#	408,816	-	-	-	-	-	408,816
Mr. Christopher Ryan#	350,414	-	-	-	-	-	350,414
Mr. Heath Zarin#	408,816	-	-	-	-	-	408,816
	<u>2,032,046</u>	<u>1,742,000</u>	<u>-</u>	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>3,792,046</u>

#: Independent Non-Executive Directors

*: Included discretionary bonuses, housing allowance and estimated money value of other benefits

(b) Directors' retirement benefits and termination benefits

None of the Directors received or will receive any retirement benefits or termination benefits during the year (2015: Nil).

(c) Consideration provided to third parties for making available Directors' services

The Company does not pay consideration to any third parties for making available Directors' services during the year (2015: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of Directors, controlled bodies corporate by and connected entities with such Directors

No loans, quasi-loans and other dealing were made in favour of Directors, controlled bodies corporate by and connected entities with such Directors at the end of the year or at any time during the year (2015: Nil).

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Benefits and interests of Directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (Continued)

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

Other than those disclosed in Note 30 to the financial statements, no significant transactions, arrangements and contracts in relation to ECG's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

10 Other losses - net

	2016 HK\$	2015 HK\$
Net foreign exchange loss	<u>(1,387,816)</u>	<u>(10,832,639)</u>

11 Finance income and costs

	2016 HK\$	2015 HK\$
Interest income:		
- Interest income on short-term bank deposits	571,100	1,096,227
Interest expense:		
- Interest expense on borrowing (Note 27)	<u>(209,189)</u>	<u>-</u>
Net finance income	<u>361,911</u>	<u>1,096,227</u>

12 Income tax expense

	2016 HK\$	2015 HK\$
Current income tax		
- Australian corporate tax	(1,515,557)	2,303,028
Deferred income tax (Note 24)	<u>(701,521)</u>	<u>(1,396,311)</u>
Income tax (credit)/expense	<u>(2,217,078)</u>	<u>906,717</u>

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% (2015: 16.5%). Subsidiary established in the PRC is subject to PRC corporate income tax at a rate of 25% (2015: 25%). No provision for Hong Kong profits tax and PRC corporate income tax has been made as ECG had no assessable profits for the year ended 31 December 2016 in Hong Kong and in the PRC (2015: Nil).

Subsidiaries established in Australia are subject to 30% income tax rate during the year (2015: 30%).

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****12 Income tax expense (Continued)**

The tax on ECG's losses before income tax differs from the theoretical amount that would arise using the domestic tax rates applicable to losses in the respectively of ECG companies as follows.

	2016 HK\$	2015 HK\$
Loss before income tax	(89,934,620)	(51,998,144)
Tax calculated at a domestic tax rates applicable loss in the respective countries	(16,748,839)	(8,990,128)
Tax effect of:		
- Associates' results reported net of tax	(25,386)	128,864
- Income not subject to tax	(104,392)	(143,460)
- Expenses not deductible for tax purposes	3,577,989	2,024,800
- Tax losses for which no deferred income tax assets were recognised	11,083,550	7,886,641
Income tax (credit)/expense	(2,217,078)	906,717

13 Loss per share**(a) Basic**

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2016 HK\$	2015 HK\$
Loss attributable to owners of the Company	87,717,542	52,904,861
Weighted average number of ordinary shares in issue	535,000,000	535,000,000
Basic loss per share (HK\$ cents per share)	16.39	9.89

(b) Diluted

Diluted loss per share for the year ended 31 December 2016 and 2015 are equal to the basic loss per share as there are no potential dilutive ordinary shares outstanding during the year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Property, plant and equipment

	Furniture and fixtures HK\$	Computer equipment HK\$	Office equipment HK\$	Leasehold improvements HK\$	Motor vehicles HK\$	Total HK\$
Year ended 31 December 2016						
Opening net book amount	505,692	837,746	416,070	3,652,383	189,773	5,601,664
Additions	11,791	598,293	619,380	47,643	-	1,277,107
Disposals	-	-	-	-	(244,979)	(244,979)
Depreciation charge (Note 7)	(75,604)	(684,045)	(133,400)	(1,060,477)	(10,518)	(1,964,044)
Currency translation differences	(1,735)	(24,668)	(28,756)	(154,204)	65,724	(143,639)
Closing net book amount	440,144	727,326	873,294	2,485,345	-	4,526,109
As at 31 December 2016						
Cost	610,210	1,966,437	1,203,614	4,360,602	-	8,140,863
Accumulated depreciation and impairment	(170,066)	(1,239,111)	(330,320)	(1,875,257)	-	(3,614,754)
Net book amount	440,144	727,326	873,294	2,485,345	-	4,526,109
Year ended 31 December 2015						
Opening net book amount	175,661	616,481	266,838	62,299	-	1,121,279
Additions	23,552	485,613	327,621	4,475,445	-	5,312,231
Business combination (Note 29)	407,806	218,277	-	-	362,876	988,959
Disposals	-	-	-	-	(91,608)	(91,608)
Depreciation charge (Note 7)	(73,085)	(463,491)	(177,482)	(787,036)	(60,004)	(1,561,098)
Currency translation differences	(28,242)	(19,134)	(907)	(98,325)	(21,491)	(168,099)
Closing net book amount	505,692	837,746	416,070	3,652,383	189,773	5,601,664
As at 31 December 2015						
Cost	601,189	1,395,729	619,281	4,515,868	239,592	7,371,659
Accumulated depreciation and impairment	(95,497)	(557,983)	(203,211)	(863,485)	(49,819)	(1,769,995)
Net book amount	505,692	837,746	416,070	3,652,383	189,773	5,601,664

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Intangible assets

	Goodwill HK\$	Contractual customer relationship HK\$	Brand name HK\$	Software HK\$	Total HK\$
Year ended 31 December 2016					
Opening net book amount	13,526,539	5,594,559	8,144,633	97,917,239	125,182,970
Additions	-	-	-	2,109,571	2,109,571
				(28,459,076)	(30,776,790)
Amortisation charge (Note 7)	-	(1,400,898)	(916,816)))
Currency translation differences	(1,035,445)	4,148	(25,566)	(76,942)	(1,133,805)
Closing net book value	<u>12,491,094</u>	<u>4,197,809</u>	<u>7,202,251</u>	<u>71,490,792</u>	<u>95,381,946</u>
As at 31 December 2016					
Cost	12,491,094	5,551,340	8,088,065	117,451,019	143,581,518
				(45,960,227)	(48,199,572)
Accumulated amortisation	-	(1,353,531)	(885,814)))
Net book value	<u>12,491,094</u>	<u>4,197,809</u>	<u>7,202,251</u>	<u>71,490,792</u>	<u>95,381,946</u>
	Goodwill HK\$	Contractual customer relationship HK\$	Brand name HK\$	Software HK\$	Total HK\$
Year ended 31 December 2015					
Opening net book amount	-	-	-	98,875,000	98,875,000
Additions	-	-	-	2,191,160	2,191,160
Business combination (Note 29)	13,670,111	7,371,548	9,648,591	8,834,527	39,524,777
					(13,458,175)
Amortisation charge (Note 7)	-	(1,291,328)	(845,107)	(11,321,740))
Currency translation differences	(143,572)	(485,661)	(658,851)	(661,708)	(1,949,792)
Closing net book value	<u>13,526,539</u>	<u>5,594,559</u>	<u>8,144,633</u>	<u>97,917,239</u>	<u>125,182,970</u>
As at 31 December 2015					
Cost	13,526,539	6,850,480	8,966,568	115,341,448	144,685,035
				(17,424,209)	(19,502,065)
Accumulated amortisation	-	(1,255,921)	(821,935)))
Net book value	<u>13,526,539</u>	<u>5,594,559</u>	<u>8,144,633</u>	<u>97,917,239</u>	<u>125,182,970</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Intangible assets (Continued)

Note:

- (a) Goodwill is wholly attributable to the eCommerce Solutions Services CGU in Australia (“Australia CGU”). The recoverable amount of the Australia CGU is determined based on value in use calculation. The calculation uses pre-tax cash flow projections based on financial budget approved by Management covering a five-year period. Cash flows beyond the projection period are extrapolated using the terminal growth rate stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value in use calculation in 2016 is as follows:

Compound annual growth rate (“CAGR”) of revenue for the five-year period	3.5%
Terminal growth rate	3%
EBITDA margin	Between 8% to 15%
Discount rate	20%

Management determined budgeted gross margin based on past performance and its expectations for market development. The discount rate used is pre-tax and reflect specific risks relating to the Australia CGU.

For the Australia CGU, the recoverable amount calculated based on value in use exceeded carrying value by HK\$5,800,000. As such, there was no indication of impairment arising from the review on goodwill as at 31 December 2016.

A decrease in CAGR of revenue for the five-year period by 0.8% or a decrease in EBITDA margin by 1.4%, all changes taken in isolation, would remove the remaining headroom.

- (b) Impairment tests for CGUs

The carrying value of intangible assets other than goodwill is primarily comprised of the following CGUs:

	2016 HK\$	2015 HK\$
Greater China eCommerce Business Services		
- Software	61,440,217	88,386,650
Australia CGU		
- Contractual customer relationship	4,197,809	5,594,559
- Brand name	7,202,251	8,144,633
- Software	10,050,575	9,530,589
	<u>82,890,852</u>	<u>111,656,431</u>

- (i) eCommerce Business Services CGU in Greater China (“Greater China CGU”)

For the year ended 31 December 2016, the Greater China CGU recorded an operating loss of approximately HK\$73,600,000. In light of such an impairment indicator, Management has performed an impairment assessment for the Greater China CGU as at 31 December 2016.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Intangible assets (Continued)

Note: (Continued)

(b) Impairment tests for CGUs (Continued)

(i) eCommerce Business Services CGU in Greater China ("Greater China CGU") (Continued)

The calculation uses pre-tax cash flow projections based on financial budget approved by Management covering a five-year period. Cash flows beyond the projection period are extrapolated using the terminal growth rate stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the Greater China CGU operates.

The key assumptions used for value in use calculation in 2016 is as follows:

CAGR of revenue for the five-year period	24.3%
Terminal growth rate	3.5%
EBITDA margin	Between -18% to 31%
Discount rate	29%

Management determined budgeted gross margin based on past performance and its expectations for market development. The discount rate used is pre-tax and reflect specific risks relating to the Greater China CGU.

For the Greater China CGU, the recoverable amount calculated based on value in use exceeded carrying value by HK\$9,200,000. Therefore, there was no indication of impairment arising from the review on goodwill as at 31 December 2016.

A decrease in CAGR of revenue for the five-year period by 2% or a decrease in EBITDA margin by 1.9%, all changes taken in isolation, would remove the remaining headroom.

(ii) Australia CGU

Since no impairment indicator is identified for the Australia CGU for intangible assets other than goodwill, no further impairment assessment was performed.

Amortisation expense of HK\$30,776,790 (2015: HK\$13,458,175) has been charged to administrative expenses.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Subsidiaries

As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries:

<u>Name</u>	<u>Place of incorporation And kind of legal entity</u>	<u>Principal activities and place of operation</u>	<u>Equity interest held by the Company directly</u>	<u>Equity interest held by the Company indirectly</u>	<u>Particulars of issued share capital</u>
eCargo Enterprise Limited	Hong Kong, limited liability	Provision of eCommerce technologies services in Hong Kong	100%	-	1,000 ordinary shares of HK\$1 each
eCargo Australia Pty Limited	Australia, limited liability	Dormant in Australia	100%	-	100 ordinary shares of A\$1 each
eCargo Limited	United Kingdom, limited liability	Dormant in United Kingdom	100%	-	1 ordinary share of GBP1 each
ECG Digital Holdings Limited	British Virgin Islands ("BVI"), limited liability	Investment holdings in Hong Kong	100%	-	50,000 ordinary shares of US\$1 each
ECG Digital Commerce Limited	Hong Kong, limited liability	Provision of eMarketplace technology services in Hong Kong	-	100%	10,000 ordinary shares of HK\$1 each
eCargo (China) Holdings Limited	BVI, limited liability	Dormant in BVI	-	100%	1 ordinary share of US\$1 each
Enrich Technologies Limited	BVI, limited liability	Provision of eCommerce solutions services in Hong Kong	-	100%	1 ordinary share of US\$1 each
Amblique Pty Limited	Australia, limited liability	Provision of eCommerce solutions services in Australia	-	100%	134,410 ordinary shares of A\$1 each
JLE (China) Limited	Hong Kong, limited liability	Dormant in Hong Kong	-	100%	10,000 ordinary shares of HK\$0.01 each
深圳市嘉宏天成貿易發展有限公司	The PRC, limited liability	Provision of eCommerce business services in the PRC	-	100%	RMB500,000 issued share capital

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Interest in associates

	2016 HK\$	2015 HK\$
At beginning of the year	5,213,814	-
Acquisition of an associate (Note a)	-	6,168,875
Investment in an associate (Note b)	70,248,000	-
Share of results of associates	153,853	(780,992)
Provision for impairment of interest in an associate (Note c)	(5,028,427)	-
Currency translation differences	(127,425)	(174,069)
At end of the year	<u>70,459,815</u>	<u>5,213,814</u>

Note:

- (a) On 28 February 2015, ECG acquired 20.99% of the issued shares in Purecomm (UK) Limited, eCommerce technology consultant and software developer in the United Kingdom, for a consideration of GBP520,000 (equivalent to approximately HK\$6.2 million).
- (b) On 25 July 2016, ECG entered into a deed with Walton Brown E-commerce Limited (“Walton Brown”) for an investment of RMB 60 million (equivalent to approximately HK\$70.2 million) into MM E-commerce Limited (“MM”). On the same date, MM entered into a deed with Novel Colour Limited (“WHL”) for an investment of RMB150 million (equivalent to approximately HK\$175.5 million) into WWE & company (BVI) Limited (“WWE”), an investment holding that aims to launch a new social shopping mobile platform in China. ECG has an effective interest of 20% in WWE through its investment in MM.
- (c) During the year, Purecomm (UK) Limited continued to be loss making due to challenging conditions in its market. Since there was significant uncertainty as to whether ECG will receive dividends or other returns from its investment in the future, ECG made a provision for the carrying value of its investment in the associate.

The particulars of ECG’s associates as at 31 December 2016 are as follows:

Name of company	Place of business and country of incorporation	Percentage of ownership interest	Principal activities	Measurement method
Purecomm (UK) Limited (“PureComm”)	The United Kingdom	20.99%	Provision of eCommerce technology consultation and software development of an office-to-office omni- channel retail execution platform	Equity
MM E-Commerce Limited	Hong Kong	40%	Investment holding	Equity

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Interest in associates (Continued)

PureComm and MM are private companies and there is no quoted market price available for the shares.

There are no contingent liabilities relating to ECG's interest in the associates.

Summarised unaudited financial information for associates

Set out below is the summarised unaudited financial information of the associates which are accounted for using the equity method.

	MM 2016 HK\$	PureComm 2015 HK\$
Non-current assets	174,208,290	4,430,239
Current assets	502	991,286
Current liabilities	(16,755)	(396,838)
Revenue	545,792	1,906,157
Profit/(loss) after income tax and total comprehensive income/(loss))	529,537	(3,720,780)
Dividend received from associates	-	-

The information above reflects the amounts presented in the financial statements of the associates (not ECG's share of those amounts).

Reconciliation of summarised financial information

Reconciliation of the summarised unaudited financial information presented to the carrying amount of ECG's in associates.

	MM 2016 HK\$	PureComm 2015 HK\$
Net assets		
Beginning of year	-	9,449,523
Investment in an associate	175,620,000	-
Profit/(loss) for the year/since acquisition	529,537	(3,720,780)
Exchange difference	-	(704,056)
End of year	176,149,537	5,024,687
Interest in associates	40%	20.99%
Interest in associates	70,459,815	1,054,682
Goodwill	-	4,159,132
	<u>70,459,815</u>	<u>5,213,814</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Financial instruments by category

Loans and receivables

	2016 HK\$	2015 HK\$
Assets as per statement of financial position		
Trade and other receivables excluding prepayments	24,966,844	38,274,172
Amounts due from related parties	8,301,962	10,539,228
Cash and cash equivalents	6,386,966	97,332,110
	<u>39,655,772</u>	<u>146,145,510</u>

Other financial liabilities at amortised cost

	2016 HK\$	2015 HK\$
Liabilities as per statement of financial position		
Trade and other payables excluding non-financial liabilities	27,193,607	14,041,607
Amounts due to related parties	11,137,170	11,043,037
Borrowing	19,969,189	-
	<u>58,299,966</u>	<u>25,084,644</u>

19 Trade receivables

	2016 HK\$	2015 HK\$
Trade receivables	23,602,377	31,342,005
Less: Provision for impairment	-	(3,016)
	<u>23,602,377</u>	<u>31,338,989</u>

The Directors consider the carrying amounts of trade receivables approximate their fair values.

Credit terms granted to customers are normally 30 days. The aging analysis of the trade receivables based on invoice date is as follows:

	2016 HK\$	2015 HK\$
1 – 30 days	14,993,615	14,604,147
31 – 60 days	5,332,853	7,459,929
61 – 90 days	1,989,079	1,077,368
Over 90 days	1,286,830	8,200,561
	<u>23,602,377</u>	<u>31,342,005</u>

As of 31 December 2016, trade receivables of HK\$708,897 (2015: HK\$3,016) were impaired and fully provided for. The individually impaired trade receivables relate to customers whose creditworthiness has materially deteriorated and it is assessed that these receivables are not expected to be recovered. ECG does not hold any collateral or other credit enhancements over these balances.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Trade receivables (Continued)

Movements on the provision for impairment of trade receivables are as follows:

	2016 HK\$	2015 HK\$
At 1 January	3,016	-
Business combination	-	120,742
Provision for impairment of trade receivables (Note 7)	708,897	3,016
Written off of provision	(711,913)	(120,742)
	<hr/>	<hr/>
At 31 December	-	3,016
	<hr/>	<hr/>

The creation and release of provision for impaired receivables have been included in administrative expenses in the statement of comprehensive income. Amounts charged to the allowance accounts are generally written off when there is no expectation of recovery of additional cash.

As at 31 December 2016, trade receivables of HK\$11,432,887 (2015: HK\$16,734,842) were past due but not impaired. These related to certain customers with no recent history of default, and as such, Management believes that no significant impairment provision is necessary. The past due aging analysis of these receivables is as follows:

	2016 HK\$	2015 HK\$
1 – 30 days	8,128,419	7,523,336
31 – 60 days	1,818,604	1,077,205
61 – 90 days	1,009,123	2,545,138
Over 90 days	476,741	5,589,163
	<hr/>	<hr/>
	11,432,887	16,734,842
	<hr/>	<hr/>

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

	2016 HK\$	2015 HK\$
HK\$	3,819,009	12,228,017
RMB	2,911,175	2,075,496
A\$	13,793,141	10,391,527
US\$	261,864	507,158
GBP	273,798	1,155,256
SG\$	598,084	1,307,167
EUR	152,572	-
NZ\$	1,792,734	3,674,368
	<hr/>	<hr/>
	23,602,377	31,338,989
	<hr/>	<hr/>

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables mentioned above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Prepayments, deposits and other receivables

	2016 HK\$	2015 HK\$
Prepayments	1,189,369	2,298,197
Rental and utility deposits	1,175,616	695,451
Other receivables	188,851	6,239,732
	<u>2,553,836</u>	<u>9,233,380</u>
Prepayments, deposits and other receivables	<u>2,553,836</u>	<u>9,233,380</u>
Less: non-current portion		
Deposits	(869,850)	(620,486)
	<u>1,683,986</u>	<u>8,612,894</u>
Current portion	<u>1,683,986</u>	<u>8,612,894</u>

Other receivables were neither past due nor impaired and they were interest-free and repayable on demand as at 31 December 2016 and 2015. Management considers that the carrying amounts of deposits and other receivables approximate their fair values.

The carrying amounts of ECG's deposits and other receivables are denominated in the following currencies:

	2016 HK\$	2015 HK\$
HK\$	401,323	5,432,411
RMB	146,445	108,976
A\$	816,699	1,393,796
	<u>1,364,467</u>	<u>6,935,183</u>

21 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	2016 HK\$	2015 HK\$
Cash on hand		
HK\$	10,038	1,860
RMB	28,051	44,483
SG\$	-	1,095
	<u>38,089</u>	<u>47,438</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 Cash and cash equivalents (Continued)

Cash and cash equivalents are denominated in the following currencies:

	2016 HK\$	2015 HK\$
Cash at banks		
HK\$	852,073	44,672,893
RMB	1,791,326	40,684,700
A\$	2,715,427	11,458,776
US\$	810,183	394,742
GBP	153,859	41,340
NZ\$	14,887	32,221
EUR	11,122	-
	<u>6,348,877</u>	<u>97,284,672</u>
	-----	-----
Total	<u>6,386,966</u>	<u>97,332,110</u>

As at 31 December 2016, the amount of cash at banks represented ECG's maximum exposure to credit risk.

22 Trade payables, other payables and accruals

	2016 HK\$	2015 HK\$
Trade payables	10,116,781	6,105,108
	-----	-----
Accrued expenses	3,696,837	3,214,522
Deferred revenue	6,489,087	10,632,883
Accrued employee benefit expenses	7,612,189	8,960,847
Other payables	2,132,541	1,125,597
	<u>19,930,654</u>	<u>23,933,849</u>
	-----	-----
	<u>30,047,435</u>	<u>30,038,957</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Trade payables, other payables and accruals (Continued)

The carrying amounts of ECG's trade payables, other payables and accruals are denominated in the following currencies:

	2016 HK\$	2015 HK\$
HK\$	8,404,477	5,973,419
RMB	653,166	61,688
A\$	20,216,680	24,003,850
NZ\$	428,759	-
US\$	309,401	-
EUR	1,344	-
GBP	33,608	-
	<u>30,047,435</u>	<u>30,038,957</u>

23 Obligation under finance lease – ECG

A motor vehicle of ECG was held under finance lease. No arrangement has been entered into for contingent rental payments. ECG's obligation under finance lease was repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2016 HK\$	2015 HK\$	2016 HK\$	2015 HK\$
Amounts payable under finance leases:				
Within one year	-	287,788	-	270,227
Less: Future finance charges	-	(17,561)	-	-
	<u>-</u>	<u>270,227</u>	<u>-</u>	<u>270,227</u>
Present value of lease obligations wholly repayable within 5 years	-	270,227	-	270,227
	<u>-</u>	<u>270,227</u>	<u>-</u>	<u>270,227</u>

24 Deferred income tax

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2016 HK\$	2015 HK\$
Deferred income tax assets:		
- to be recovered after more than 12 months	2,778,187	1,581,322
	<u>2,778,187</u>	<u>1,581,322</u>
Deferred income tax liabilities:		
- to be recovered after more than 12 months	(4,620,837)	(4,121,759)
	<u>(4,620,837)</u>	<u>(4,121,759)</u>
Deferred income tax liabilities – net	<u>(1,842,650)</u>	<u>(2,540,437)</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Deferred income tax (Continued)

The movement on the deferred income tax account is as follows:

	2016 HK\$	2015 HK\$
At 1 January	(2,540,437)	-
Acquisition of a subsidiary (Note 29)	-	(4,350,735)
Credited to income statement (Note 12)	701,521	1,396,311
Currency translation differences	(3,734)	413,987
At 31 December	<u>(1,842,650)</u>	<u>(2,540,437)</u>

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	2016 HK\$	2015 HK\$
Deferred income tax assets		
At 1 January	1,581,322	-
Acquisition of a subsidiary (Note 29)	-	755,306
Credited to the income statement	1,241,817	755,378
Currency translation differences	(44,952)	70,638
At 31 December	<u>2,778,187</u>	<u>1,581,322</u>
Deferred income tax liabilities		
At 1 January	(4,121,759)	-
Acquisition of a subsidiary (Note 29)	-	(5,106,041)
(Debited) / credited to the income statement	(540,296)	640,933
Currency translation differences	41,218	343,349
At 31 December	<u>(4,620,837)</u>	<u>(4,121,759)</u>

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. ECG did not recognise deferred income tax assets in respect of estimated tax losses amounting to HK\$114,723,799 (2015: HK\$54,057,758) arising in Hong Kong and HK\$12,670,880 (2015: HK\$8,376,267) arising in the PRC. The tax losses arising in Hong Kong can be carried forward indefinitely and the tax losses arising in the PRC will expire in five years.

25 Share capital

	Number of shares	Share capital HK\$
Share issued	535,000,000	329,401,285
As at 31 December 2015 and 2016	<u>535,000,000</u>	<u>329,401,285</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Notes to the consolidated statement of cash flows

Cash used in operations for the year comprises:

	2016 HK\$	2015 HK\$
Loss before income tax	(89,934,620)	(51,998,144)
Adjustments for:		
- Depreciation of property, plant and equipment (Note 14)	1,964,044	1,561,098
- Amortisation of intangible assets (Note 15)	30,776,790	13,458,175
- Provision for impairment of interest in an associate (Note 17)	5,028,427	-
- Net foreign exchange loss on operating activities (Note 10)	1,387,816	10,832,639
- Finance income (Note 11)	(571,100)	(1,096,227)
- Share of results of associates (Note 17)	(153,853)	780,992
- Gain on disposal of property, plant and equipment (Note 7)	(41,257)	(44,738)
	<u>(51,543,753)</u>	<u>(26,506,205)</u>
Changes in working capital:		
- Trade receivables	7,736,612	(7,673,811)
- Prepayments, deposits and other receivables	6,679,544	(4,149,902)
- Trade payables	4,011,673	(105,133)
- Other payables and accruals	(4,003,195)	3,340,791
- Balances with related parties	2,331,400	(10,288,522)
	<u>(34,787,719)</u>	<u>(45,382,782)</u>

In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2016 HK\$	2015 HK\$
Net book amount	198,978	91,608
Gain on disposal of property, plant and equipment (Note 7)	41,257	44,739
	<u>240,235</u>	<u>136,347</u>

27 Borrowing

	2016 HK\$	2015 HK\$
Current		
Loan from a shareholder	<u>19,969,189</u>	<u>-</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Borrowing (Continued)

On 29 August 2016, ECG entered into an agreement with JL Enterprise Holdings Limited, the Company's major shareholder and a company wholly owned by Mr. John Lau, the Executive Chairman of ECG, as to provide a loan facility in an aggregate amount of up to HK\$50 million to support the ECG's working capital requirements. The loan facility is unsecured and bears interest at prime rate quoted from the Hong Kong and Shanghai Banking Corporation Limited from time to time. The loan facility can be utilised at ECG's demand and is repayable in accordance with a separate agreement to be made between ECG and JL Enterprises Holdings Limited.

The carrying amount of borrowing approximate to its fair value and is denominated in HK\$.

Borrowing bears average coupon rate of 5% as at 31 December 2016.

28 Operating lease commitments - as lessee

As at 31 December 2016, ECG had future aggregate minimum lease payments in respect of office premises under non-cancellable operating leases as follows:

	2016 HK\$	2015 HK\$
No later than one year	2,293,719	3,661,379
Later than one year and no later than five years	1,900,086	4,023,015
	<u>4,193,805</u>	<u>7,684,394</u>

ECG leases a motor vehicle under non-cancellable operating lease agreement. The lease term is 4 years. The future aggregate minimum lease payments are as follows:

	2016 HK\$	2015 HK\$
No later than one year	-	270,227
	<u>-</u>	<u>270,227</u>

29 Business combination

On 13 February 2015, ECG acquired 100% of the issued shares of Amblique for a consideration of A\$ 6.0 million (equivalent to approximately HK\$36.4 million). The acquisition was made by ECG with an aim to expand service and solution offerings to its customers. None of the goodwill recognised is expected to be deductible for income tax purposes.

The goodwill of HK\$13,670,111 arises from a number of factors including expected synergies through combining a highly skilled workforce with expertise in technology solutions with a much greater enterprise solutions and supply chain operations platform in the PRC, Hong Kong, Australia and New Zealand.

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****29 Business combination (Continued)**

	As at 13 February 2015 HK\$
Outflow of cash to acquire business, net of cash acquired	
- cash consideration	36,432,692
- cash and cash equivalents in subsidiary acquired	(10,947,040)
	<hr/>
Cash outflow on acquisition	25,485,652
	<hr/>

(a) Acquired receivables

The fair value of trade and other receivables is HK\$9,931,476 and includes trade receivables with a fair value of HK\$8,566,511. The gross contractual amount for trade receivables due is HK\$8,687,253 of which HK\$120,742 is expected to be uncollectible.

(b) Revenue and profit contribution

The acquired business contributed revenue of HK\$59,819,863 and net profit of HK\$2,648,401 to ECG for the period from 13 February 2015 to 31 December 2015. If the acquisition had occurred on 1 January 2015, consolidated revenue and consolidated net loss for the year ended 31 December 2015 would have been approximately HK\$118,083,994 and HK\$52,904,861 respectively for ECG.

The following table summarises the consideration paid for Amblique, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	As at 13 February 2015 HK\$
Purchase consideration	
- Cash paid	36,432,692
	<hr/>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 Business combination (Continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

	As at 13 February 2015 HK\$
Cash and cash equivalents	10,947,040
Property, plant and equipment	988,959
Intangible assets	
- Software	8,834,527
- Contractual customer relationship	7,371,548
- Brand name	9,648,591
Deferred income tax assets	755,306
Trade and other receivables	9,931,476
Trade and other payables	(5,274,534)
Deferred revenue	(11,780,544)
Employee benefit liabilities	(3,028,004)
Obligation under finance lease	(525,743)
Deferred income tax liabilities	(5,106,041)
	<hr/>
Total identifiable net assets	22,762,581
Goodwill	13,670,111
	<hr/>
	<u>36,432,692</u>

30 Related party transactions

The Board of Directors are of the view that the following parties were considered related parties that had transactions or balances with ECG:

Name of related party	Relationship with ECG
Mr. John Lau	Executive Director/Executive Chairman
Mr. Christopher Lau	Executive Director/Chief Executive Officer
Mr. Rupert Myer AO	Independent Non-Executive Director
Mr. Christopher Ryan	Independent Non-Executive Director
Mr. Heath Zarin	Independent Non-Executive Director
JL Enterprise Holdings Limited	Shareholder of the Company, controlled by Mr. John Lau
Bo Lei Digital Limited	Subsidiary of an associate
CS China Logistics Limited	Shareholder of the Company, controlled by Mr. John Lau
Cargo Services Far East Limited	Controlled by Mr. John Lau
CS Logistic Solutions Pty Limited	Controlled by Mr. John Lau
Allport Cargo Services Limited	Controlled by Mr. John Lau
CN Logistics Limited	Controlled by Mr. John Lau
Cargo Services (China) Limited	Controlled by Mr. John Lau
WWE Group Limited	Joint venture of an associate

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Related party transactions (Continued)

The following transactions were carried out with related parties:

	2016 HK\$	2015 HK\$
(a) Sales of services – note (i)		
Sales of software development services:		
- Cargo Services Far East Limited	2,405,412	5,707,629
- Bo Lei Digital Limited	14,477	
Sales of import, storage, and courier fulfillment services:		
- Cargo Services Far East Limited	2,082	-
- CN Logistics Limited	24,763	-
Sales of management services:		
- WWE Group Limited	5,550,000	-
	<u>7,996,734</u>	<u>5,707,629</u>
	2016 HK\$	2015 HK\$
(b) Purchases of services – note (i)		
Purchase of outsourced labour services:		
- CS China Logistics Limited	2,079,889	3,700,700
Purchases of outsourced import, storage, and courier fulfillment services:		
- CS China Logistics Limited	16,365,039	34,829,806
- CS Logistic Solutions Pty Limited	2,471,279	
Purchase of management and administrative services:		
- Cargo Services Far East Limited	421,581	-
	<u>21,337,788</u>	<u>38,530,506</u>
(c) Key Management compensation – note (ii)		
Details of the Key Management compensation are disclosed in Note 9 to this consolidated financial statements.		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Related party transactions (Continued)

The following transactions were carried out with related parties (Continued):

	2016 HK\$	2015 HK\$
(d) Payment on behalf of ECG by related parties		
- Cargo Services Far East Limited	2,941,222	779,021
- Cargo Service (China) Limited	7,177	-
- CN Logistic Limited	14,390	-
	<u>6,594,644</u>	<u>779,021</u>
	2016 HK\$	2015 HK\$
(e) Payment on behalf of related party by ECG		
- WWE Group Limited	<u>3,631,855</u>	<u>-</u>
(f) Amount due to Key Management – note (iii)		
	As at 31 December 2016 HK\$	As at 31 December 2015 HK\$
Mr. Christopher Lau	<u>600,000</u>	<u>648,000</u>
(g) Balances with related parties – note (iv)		
	As at 31 December 2016 HK\$	As at 31 December 2015 HK\$
- Allport Cargo Services Limited	51,540	(158,908)
- Cargo Services Far East Limited	6,730,981	10,539,228
- Cargo Services (China) Limited	(8,170,818)	(2,345,370)
- Cargo Tiancheng Technology Limited	(41,919)	(27,498)
- CN Logistics Limited	(2,242,610)	(7,797,250)
- CS China Logistics	(681,823)	(714,011)
- Bo Lei Digital Limited	14,477	-
- WWE Group Limited	1,504,964	-
	<u>(2,835,208)</u>	<u>(503,809)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Related party transactions (Continued)

The following transactions were carried out with related parties (Continued):

(g) Balances with related parties – note (iv)

	As at 31 December 2016 HK\$	As at 31 December 2015 HK\$
- Allport Cargo Services Limited	51,540	(158,908)
- Cargo Services Far East Limited	6,730,981	10,539,228
- Cargo Services (China) Limited	(8,170,818)	(2,345,370)
- Cargo Tiancheng Technology Limited	(41,919)	(27,498)
- CN Logistics Limited	(2,242,610)	(7,797,250)
- CS China Logistics	(681,823)	(714,011)
- Bo Lei Digital Limited	14,477	-
- WWE Group Limited	1,504,964	-
	<u>(2,835,208)</u>	<u>(503,809)</u>

(h) Borrowing from a shareholder

	HK\$	HK\$
At 1 January 2016	-	-
Loan advanced during the year (Note 27)	19,760,000	-
Interest charged (Note 11)	209,189	-
	<u>19,969,189</u>	<u>-</u>

Notes:

- (i) These transactions are carried out on terms agreed with the related parties in the ordinary course of business and on commercial terms that would be available to third parties.
- (ii) Key Management are deemed to be the Directors who have responsibility for planning, directing, and controlling the activities of the Company.
- (iii) The payable balances with Directors are unsecured, interest free and are repayable on demand. The fair values of these balances approximate their carrying values.
- (iv) Balances with related parties arise mainly from purchase transactions and are due one month after the date of purchase. The receivable balances and payable balances bear no interest and are denominated in HK\$.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Statement of financial position and reserve movement of the Company

	Note	2016 HK\$	2015 HK\$
Assets			
Non-current assets			
Property, plant and equipment		318,150	537,844
Intangible assets		61,440,217	88,375,000
Investment in subsidiaries		389,283	389,283
Interest in an associate		-	5,213,814
		<u>62,147,650</u>	<u>94,515,941</u>
Current assets			
Amounts due from subsidiaries		207,870,079	192,546,200
Cash and cash equivalents		107	14,752,534
		<u>207,870,186</u>	<u>207,298,734</u>
Total assets		<u>270,017,836</u>	<u>301,814,675</u>
Equity			
Equity attributable to owners of the Company			
Share capital		329,401,285	329,401,285
Accumulated losses	a	(80,712,894)	(33,288,707)
Total equity		<u>248,688,391</u>	<u>296,112,578</u>
Liabilities			
Non-current liabilities			
Loan from a shareholder		19,969,189	-
Current liabilities			
Amounts due to subsidiaries		387,540	5,602,097
Other payables and accruals		972,716	100,000
		<u>1,360,256</u>	<u>5,702,097</u>
Total liabilities		<u>21,329,445</u>	<u>5,702,097</u>
Total equity and liabilities		<u>270,017,836</u>	<u>301,814,675</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 Statement of financial position and reserve movement of the Company (Continued)

Note:

(a) Reserve movement of the Company

	Accumulated losses HK\$
As at 1 January 2015	(20,923,768)
Loss for the year	(12,364,939)
	<hr/>
As at 31 December 2015 and 1 January 2016	(33,288,707)
Loss for the year	(47,424,187)
	<hr/>
As at 31 December 2016	<u>(80,712,894)</u>