



ASX PRELIMINARY FINAL REPORT

eCargo Holdings Limited

ARBN 601 083 069

December 31, 2019

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, 2019 to December 31, 2019
 Prior corresponding period: January 1, 2018 to December 31, 2018

Results for announcement to the market

Key information

(HK\$)	Year ended December 31, 2019	Year ended December 31, 2018	% Change
Revenue from ordinary operations	177,406,615	134,458,649	+32%
Loss after income tax expense	(74,565,854)	(134,695,885)	-45%
Total comprehensive loss attributable to owners of the Company	(76,671,848)	(139,034,787)	-45%

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, 2019 (HK\$15.2 cents)
 December 31, 2018 (HK\$9.6 cents)

At December 31, 2019, there were 615,250,000 shares in issue, which would convert to a net asset backing of loss HK\$4.9 cents per share (December 31, 2018: HK\$7.5 cents per share).

Controlled entities acquired or disposed of

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

Associates and joint venture entities

During the year, ECG had equity accounted for the interest in a joint venture.

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

Consolidated statutory net loss for the year was HK\$74.6 million with an EBITDA loss of HK\$6.7 million. Excluding the results of FMCG, statutory net loss of the other business units combined would be HK\$63.2 million, reduced by 53% compared to 2018 reflecting:

- decreased amortisation charge by HK\$10.8 million;
- absence of 2018 impairment on investment in MM-E-Commerce Limited of HK\$72.5 million;
- absence of the loss on disposal of interest in an associate of HK\$39.0 million in 2018;
- absence of fair value gain on financial assets of HK\$13.9 million this year; and
- an impairment charge of HK\$49.3 million on FMCG recorded in this year.

Accordingly, EBITDA of non-FMCG business units would be HK\$4.4 million, an improvement of 144% over the HK\$10.1 million loss of the previous year.

Revenue was HK\$177.4 million (2018: HK\$134.5 million) of which HK\$18.1 million (2018: HK\$32.5 million) was attributable to eCommerce-enabling business, HK\$85.9 million (2018: HK\$97.1 million) was contributed by Amblique and HK\$71.0 million (2018: HK\$2.5 million) was contributed by FMCG business unit. The remaining was licensing revenue of HK\$2.4 million attributed to the corporate segment same as the previous year.

eCommerce-enabling is primary business unit providing online store operation and fulfilment services for foreign fashion and cosmetics brands selling in China. Despite this segment revenue decreased by 43% year-on-year, gross profit margin increased by 11% and achieved a positive EBITDA for the first time because of certain non-profitable customers and non-core service offerings were discontinued.

Amblique, our SaaS-based eCommerce technology solutions business based in Australia, recorded an encouraging result in 2019. Revenue decreased slightly however, EBITDA increased significantly by 82% mainly attributable to client services offering to the existing customers at higher margin and savings in overhead.

FMCG Online to Offline (O2O) became a major revenue driver for ECG following the acquisition of Metcash Asia in February 2019. It has accounted for 40% of the ECG's revenue this year and is expected to continue and increase in the future. During the year, several new initiatives were undertaken which expanded our service offerings, these include:

- the CBEC Growth Program introduced in August 2019 which aims to incubate FMCG brands on existing eCargo eCommerce Flagship stores. The program is aimed at growing foreign brands in China and provide a full-service, cost-conscious entry option to brand owners;
- expanded eCargo's online and offline distribution network and our supplier base, diversifying from Australian based suppliers to UK, Europe and South Africa; and
- established a joint venture (ABG Group) in September 2019, which has provided a scalable professional sourcing and distribution network for brands looking to enter and grow in the South East Asian markets. This joint venture achieved A\$6 million sales for three months in 2019 and contributed HK\$0.5 million to the Group's results accordingly.

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
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019

eCARGO HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 HK\$	2018 HK\$
Revenue	6	177,406,615	134,458,649
Cost of sales	7	(114,439,781)	(62,995,438)
Gross profit		62,966,834	71,463,211
Selling and distribution expenses	7	(9,789,268)	(11,273,130)
Administrative expenses	7	(78,960,202)	(89,007,217)
Research and development expenses	7	(1,997,618)	(5,638,052)
Net impairment losses on financial assets and contract assets	3.2	(573,719)	-
Other income	10	8,011,436	-
Other losses – net	10	(482,938)	(1,203,385)
Operating loss		(20,825,475)	(35,658,573)
Finance income	11	38,178	46,358
Finance expense	11	(5,342,595)	(2,214,562)
Finance expense – net	11	(5,304,417)	(2,168,204)
Fair value gain on financial assets at fair value through profit or loss	30	-	13,930,290
Share of results from an associate	17	-	555,323
Share of results from a joint venture	17	477,699	-
Provision for impairment of interest in an associate	17	-	(72,504,113)
Provision for impairment of goodwill	15	(49,276,724)	-
Loss on disposal of interest in an associate	30	-	(38,992,851)
Loss before income tax		(74,928,917)	(134,838,128)
Income tax credit	12	363,063	142,243
Loss for the year		(74,565,854)	(134,695,885)
Loss for the year is attributable to:			
Owners of the Company		(74,565,854)	(134,401,793)
Non-controlling interests		-	(294,092)
		(74,565,854)	(134,695,885)
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		(2,105,994)	(4,632,994)
Total comprehensive loss for the year		(76,671,848)	(139,328,879)
Total comprehensive loss for the year is attributable to:			
Owners of the Company		(76,671,848)	(139,034,787)
Non-controlling interests		-	(294,092)
		(76,671,848)	(139,328,879)
Loss per share for loss attributable to owners of the Company			
- Basic and diluted (HK cents per share)	13	(12.12)	(22.03)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

eCARGO HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Note	2019 HK\$	2018 HK\$
Assets			
Non-current assets			
Property, plant and equipment	14	653,763	1,763,902
Right-of-use assets	14(b)	5,576,128	-
Intangible assets	15	63,425,070	105,259,791
Interests in associates and a joint venture	17	213,554	-
Deferred income tax assets	24	1,699,088	1,306,784
Prepayment and deposits	21	397,970	7,346,835
		<u>71,965,573</u>	<u>115,677,312</u>
Current assets			
Inventories	19	15,501,990	1,787,805
Trade receivables	20	18,867,866	18,415,962
Contract assets	5	3,325,508	3,767,479
Prepayments, deposits and other receivables	21	4,919,047	2,802,804
Amounts due from related parties	31	3,054,309	9,497,723
Cash and cash equivalents	22	26,946,542	17,614,983
		<u>72,615,262</u>	<u>53,886,756</u>
Total assets		<u><u>144,580,835</u></u>	<u><u>169,564,068</u></u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	25	427,820,968	427,820,968
Currency translation reserve		(2,936,793)	(830,799)
Accumulated losses		(455,157,027)	(380,591,173)
Total (deficit)/equity		<u><u>(30,272,852)</u></u>	<u><u>46,398,996</u></u>

eCARGO HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2019

	Note	2019 HK\$	2018 HK\$
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	24	10,821,794	10,921,657
Lease liabilities	14(b)	4,178,017	-
Other payables	23	763,364	-
Borrowings	27	85,603,517	58,420,349
		<u>101,366,692</u>	<u>69,342,006</u>
		-----	-----
Current liabilities			
Trade payables	23	22,729,634	11,088,473
Contract liabilities	5	2,155,757	2,386,262
Other payables and accruals	23	12,493,779	17,155,766
Amounts due to related parties	31	25,884,280	21,371,406
Put option liabilities		7,653,888	-
Lease liabilities	14(b)	1,745,834	-
Income tax payable		823,823	1,821,159
		<u>73,486,995</u>	<u>53,823,066</u>
		-----	-----
Total liabilities		<u>174,853,687</u>	<u>123,165,072</u>
		=====	=====
Total equity and liabilities		<u>144,580,835</u>	<u>169,564,068</u>
		=====	=====

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

eCARGO HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Attributable to owners of the Company				Non-controlling interests	Total equity/(deficit)
	Share capital	Currency translation reserve	Accumulated losses	Total		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 January 2018	329,401,285	3,802,195	(245,895,288)	87,308,192	-	87,308,192
Comprehensive loss						
Loss for the year	-	-	(134,401,793)	(134,401,793)	(294,092)	(134,695,885)
Other comprehensive loss						
Currency translation differences	-	(4,632,994)	-	(4,632,994)	-	(4,632,994)
Total comprehensive loss for the year	-	(4,632,994)	(134,401,793)	(139,034,787)	(294,092)	(139,328,879)
Issue of shares (Note 25)	98,419,683	-	-	98,419,683	-	98,419,683
Transactions with non-controlling interests (Note 29)	-	-	(294,092)	(294,092)	294,092	-
Balance at 31 December 2018	427,820,968	(830,799)	(380,591,173)	46,398,996	-	46,398,996
Balance at 1 January 2019	427,820,968	(830,799)	(380,591,173)	46,398,996	-	46,398,996
Comprehensive loss						
Loss for the year	-	-	(74,565,854)	(74,565,854)	-	(74,565,854)
Other comprehensive loss						
Currency translation differences	-	(2,105,994)	-	(2,105,994)	-	(2,105,994)
Total comprehensive loss for the year	-	(2,105,994)	(74,565,854)	(76,671,848)	-	(76,671,848)
Balance at 31 December 2019	427,820,968	(2,936,793)	(455,157,027)	(30,272,852)	-	(30,272,852)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

eCARGO HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 HK\$	2018 HK\$
Cash flows from operating activities			
Cash generated from operations	26	14,944,506	3,905,514
Income tax (paid)/refunded		(4,154,951)	742,168
Interest paid	31	(123,068)	-
		<hr/>	<hr/>
Net cash generated from operating activities		10,666,487	4,647,682
		<hr/>	<hr/>
Cash flows from investing activities			
Prepayment for the acquisition of a subsidiary	30	-	(6,960,375)
Payment for acquisition of a subsidiary, net of cash acquired	30	(28,662,459)	-
Purchase of property, plant and equipment	14	(213,675)	(2,035,712)
Step acquisition from an associate to a subsidiary, net of cash acquired	30	-	374,889
Interest received	11	38,178	46,358
Distributions received	10	6,118,422	-
Dividend from a joint venture	17	264,690	-
		<hr/>	<hr/>
Net cash used in investing activities		(22,454,844)	(8,574,840)
		<hr/>	<hr/>
Cash flows from financing activities			
Proceeds from borrowings	31	35,343,319	9,500,000
Repayment of borrowings	31	(12,134,427)	-
Principal elements of lease payment	26(d)	(1,883,737)	-
		<hr/>	<hr/>
Net cash generated from financing activities		21,325,155	9,500,000
		<hr/>	<hr/>
Net increase in cash and cash equivalents		9,536,798	5,572,842
Cash and cash equivalents at beginning of year		17,614,983	12,702,478
Exchange loss on cash and cash equivalents		(205,239)	(660,337)
		<hr/>	<hr/>
Cash and cash equivalents at end of year	22	26,946,542	17,614,983
		<hr/>	<hr/>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

eCargo Holdings Limited (the “Company”) and its subsidiaries (collectively, the “ECG” or the “Group”) are principally engaged in the development and provision of eCommerce technologies, integrated offline and online supply chain operations, provision of digital commerce solutions and services and trading of fast moving consumer goods.

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.

As at 31 December 2019, the Company had net current liabilities of HK\$871,733 and net liabilities of HK\$30,272,852. The financial statements have been prepared on a going concern basis as the Company’s ultimate holding company, JL Enterprises Holdings Limited has agreed to provide continuing financial support to the Group to enable it to meet its financial obligations as and when they fall due.

The preparation of financial statements in conformity with HKFRSs 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 consolidated financial statements.

- (a) The following new and amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2019, but do not have significant financial impact to ECG.

Amendments to annual improvement project	Annual improvements 2015 – 2017 cycle
Amendments to HKAS 19	Plan amendment, curtailment or settlement
Amendments to HKFRS 9	Prepayment features with negative compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
HK (IFRIC)-Int 23	Uncertainty over income tax treatments
HKFRS 16	Leases

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2 Basis of preparation of the financial statements (Continued)

- (a) The following new and amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2019, but do not have significant financial impact to ECG. (Continued)

ECG has initially applied HKFRS 16 with effect from 1 January 2019 and elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

As indicated in above, ECG has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.25.

On adoption of HKFRS 16, ECG recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.3%-6%.

- (i) Practical expedients applied

In applying HKFRS 16 for the first time, ECG has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

ECG has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, ECG relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.2 Basis of preparation of the financial statements (Continued)

- (a) The following new and amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2019, but do not have significant financial impact to ECG. (Continued)

- (ii) Measurement of lease liabilities

	HK\$
Operating lease commitments disclosed as at 31 December 2018	4,116,992
Discounted using the lessee's incremental borrowing rate of at the date of initial application	3,910,724
Less: short-term leases not recognised as a liabilities	(400,054)
Add: adjustments as a result of a different treatment of extension and termination options	2,037,275
Lease liability recognised as at 1 January 2019	5,547,945
Of which are:	
Current lease liabilities	1,086,905
Non-current lease liabilities	4,461,040
	5,547,945

- (iii) Measurement of right-of-use assets

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

- (iv) Adjustment recognised in the consolidated statement of financial statement position on 1 January 2019

The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 16 on 1 January 2019.

	As at 31 December 2018 HK\$	HKFRS 16 HK\$	As at 1 January 2019 HK\$
Non-current assets			
Right-of-use assets	-	5,547,945	5,547,945
Non-current liabilities			
Lease liabilities	-	4,461,040	4,461,040
Current liabilities			
Lease liabilities	-	1,086,905	1,086,905

- (v) Lessor accounting

ECG did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

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) The following new standards, amendments/revisions to standards and interpretation have been issued, but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by ECG.

		Effective for accounting periods beginning on or after
Amendments to HKFRS 3 (Revised)	Definition of a business (amendments)	1 January 2020
HKFRS 17	Insurance contracts (new standard)	1 January 2021
Conceptual Framework for Financial Reporting 2018	Revised conceptual Framework for Financial reporting	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material (amendments)	1 January 2020
Amendments to HKFRS 10 and HKAS 28	Sales or contribution of assets between an investor and its associate or joint venture (amendments)	To be determined

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions

2.3 Principle of consolidation and equity accounting

2.3.1 Subsidiaries

Subsidiaries are entities (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.

The acquisition method of accounting is used to account for business combinations by ECG (Note 2.4).

Intra-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by ECG.

2.3.2 Associates

Associates are all entities 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 (Note 2.3.4), after initially being recognised at cost.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.3 Principle of consolidation and equity accounting (Continued)

2.3.3 Joint arrangements

Under HKFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Interest in joint ventures are accounted for using the equity method (Note 2.3.4), after initially being recognised at cost in the consolidated statement of financial position.

2.3.4 Equity method

Under the equity method, the investment is initially recognised at cost and adjusted thereafter to recognise ECG's share of the post-acquisition profits or losses of the investee in profit or loss, and ECG's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where ECG's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, ECG does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between ECG and its associates and joint ventures are eliminated to the extent of ECG's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by ECG.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

2.3.5 Changes in ownership interests

ECG treats transactions with non-controlling interest that do not result in a loss of control as transactions with equity owners of ECG. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When ECG ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if ECG had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

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

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by ECG
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. ECG recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.5 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.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers (“CODM”), 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.

2.7 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.

(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.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.8 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. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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%

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.

2.9 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.4. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.9 Intangible assets (Continued)

(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) Supplier relationships

Supplier relationships acquired in a business combination are recognised at fair value at the acquisition date. The supplier 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 to 10 years.

(e) 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.

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.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

ECG amortised intangible assets with a limited useful life using the straight-line method over the following period.

Brand name	10 years
Contractual customer relationships	5 years
Supplier relationships	5-10 years
Software	5-10 years

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Investment and other financial assets

(i) Classification

ECG classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether ECG has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

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

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which ECG commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and ECG has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, ECG measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.11 Investment and other financial assets (Continued)

(iii) Measurement (Continued)

Debt instruments

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other losses - net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other losses - net and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

ECG subsequently measures all equity investments at fair value. Where ECG's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when ECG's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.11 Investment and other financial assets (Continued)

(iv) Impairment

ECG assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, ECG applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 20 for further details.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of First-in-First-out. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. ECG holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 20 for further information about ECG's accounting for trade receivables and Note 3.2 for a description of ECG's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 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.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.16 Trade and other payables

These amounts represent liabilities for goods and services provided to ECG prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.17 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 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.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expenses in the period in which they are incurred.

2.19 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.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

2.20 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.20 Employee benefits (Continued)

(b) Other long-term employee benefit obligation

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(c) Post-employment obligations

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 further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

ECG’s contributions to defined contribution plan are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

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.

(d) 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.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.21 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.

2.22 Revenue recognition

Revenue is measured when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if ECG's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as ECG performs; or
- does not create an asset with an alternative use to ECG and ECG has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. ECG use the output methods to measure the progress towards, recognising revenue based on direct measurements of the value transferred to the customer. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, ECG allocates revenue to each performance obligation based on its relative standalone selling price. ECG generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, ECG presents the contract in the statement of financial position as a contract assets or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is ECG's right to consideration in exchange for goods and services that ECG has transferred to a customer. A receivable is recorded when ECG has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of the consideration is due.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.22 Revenue recognition (Continued)

If a customer pays consideration or ECG has a right to an amount of consideration that is unconditional, before ECG transfers a good or service to the customer, ECG presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is ECG's obligation to transfer goods or services to a customer for which ECG has received consideration (or an amount of consideration is due from the customer).

2.23 Interest income

Interest income on financial assets at amortised cost is calculated by using the effective interest method and is recognised in the consolidated statement of comprehensive income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purpose. Any other interest income is included in other income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.24 Loss per share

(i) Basic loss per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.25 Leases

As explained in Note 2.2(a) above, ECG has changed its accounting policy for leases where ECG is the lessee. The new policy is described below and the impact of the change in Note 2.2(a).

Leases in which a significant portion of the risks and rewards of ownership were not transferred to ECG as lessee were classified as operating leases (Note 28). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by ECG.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by ECG under residual value guarantees
- the exercise price of a purchase option if ECG is reasonably certain to exercise that option, and;
- payments of penalties for terminating the lease, if the lease term reflects ECG exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in ECG, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, ECG, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ECG is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.25 Leases (Continued)

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

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 statement of financial position, 55% (2018: 42%) of the total receivables 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.

ECG's trade receivables and contract assets are subject to the expected credit loss model, while cash and cash equivalent are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

ECG applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. ECG has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. ECG has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

On that basis, the loss allowance as at 31 December 2019 and 2018 was determined as follows for both trade receivables and contract assets:

As at 31 December 2019	Lifetime expected loss rate	Gross carrying amount	Lifetime expected credit loss	Net carrying amount
Individual assessment	100%	479,903	(479,903)	-
Collective assessment				
Current	0%-3.52%	12,583,003	(63,850)	12,519,153
Past due:				
1 to 30 days	0%-3.52%	7,103,708	(15,778)	7,087,930
31 to 60 days	0%-7.32%	1,503,108	(83,301)	1,419,807
61 to 90 days	0%-7.86%	350,955	(4,406)	346,549
Over 90 days	0%-18.43%	962,236	(142,301)	819,935
		<u>22,503,010</u>	<u>(309,636)</u>	<u>22,193,374</u>
As at 31 December 2018				
Individual assessment	100%	221,800	(221,800)	-
Collective assessment				
Current		13,404,234	-	13,404,234
Past due:				
1 to 30 days	0.1%	4,365,056	-	4,365,056
31 to 60 days	0.1%	864,487	-	864,487
61 to 90 days	0.2%	246,009	-	246,009
Over 90 days	0.5%	3,303,655	-	3,303,655
		<u>22,183,441</u>	<u>-</u>	<u>22,183,441</u>

The loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as follows:

	Trade receivables	
	2019	2018
	HK\$	HK\$
Opening loss allowance at 1 January	221,800	255,824
Increase in loss allowance recognised in profit or loss	573,719	-
Receivables written off during the year as uncollectible	-	(34,024)
Currency translation differences	(5,980)	-
Closing loss allowance at 31 December	<u>789,539</u>	<u>221,800</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with ECG, and a failure to make contractual payments for a period of greater than 180 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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, amounts due to related parties and lease liabilities, mature within one year from the date of consolidated statement of financial position, equal to their carrying balances as the impact of discounting is not significant.

The table below analyses ECG's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the date of consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 3 months HK\$	Between 3 months and 1 year HK\$	Between 1 and 2 years HK\$	Between 2 and 5 years HK\$	More than 5 years HK\$	Total HK\$
At 31 December 2019						
Trade payables	22,729,634	-	-	-	-	22,729,634
Contract liabilities	2,155,757	-	-	-	-	2,155,757
Other payables and accruals	12,493,779	-	763,364	-	-	13,257,143
Amounts due to related parties	25,884,280	-	-	-	-	25,884,280
Put option liabilities	-	7,653,888	-	-	-	7,653,888
Lease liabilities	556,103	1,449,303	1,640,269	2,840,386	-	6,486,061
	<u>63,819,553</u>	<u>9,103,191</u>	<u>2,403,633</u>	<u>2,840,386</u>	<u>-</u>	<u>78,166,763</u>
At 31 December 2018						
Trade payables	11,088,473	-	-	-	-	11,088,473
Contract liabilities	2,386,262	-	-	-	-	2,386,262
Other payables and accruals	17,155,766	-	-	-	-	17,155,766
Amounts due to related parties	21,371,406	-	-	-	-	21,371,406
	<u>52,001,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,001,907</u>

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\$”) 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 2019, if HK\$ had strengthened/weakened by 5% against the A\$ with all other variables held constant, post-tax loss for the year would have been approximately HK\$129,000 (2018: HK\$389,000) higher/lower, mainly as a result of foreign exchange losses/gains on translation of trade receivables and other receivables, trade and other payables and bank deposits denominated in the A\$.

At 31 December 2019, if HK\$ had strengthened/weakened by 5% against the RMB with all other variables held constant, post-tax loss for the year would have been approximately HK\$338,000 (2018: HK\$323,000) higher/lower, mainly as a result of foreign exchange losses/gains on translation of trade receivables and other receivables, trade and other payables and bank deposits denominated in the RMB.

At 31 December 2019, 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\$56,000 (2018: HK\$101,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of trade receivables, trade and other payables and bank deposits denominated in the NZ\$.

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.

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 2019, 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\$357,000 (2018: HK\$226,000) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowing.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.6 Fair value estimation

ECG's financial instruments include "cash and cash equivalents", "trade receivables", "deposits and other receivables", "contract assets", "amounts due from related parties", "trade and other payables", "contract liabilities", "amounts due to related parties", "borrowing", "put option liabilities" and "lease liabilities". 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, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognised in the consolidated 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.

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.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Critical accounting estimates and judgments (Continued)

- (b) Valuation of fair value of identifiable assets acquired and liabilities assumed in respect of acquisitions

The purchase price was allocated to the identifiable assets acquired and liabilities assumed based on management's estimated of fair value. The valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, management judgments is required in assessing whether the appropriate key assumptions such as the growth rate and discount rates to be applied in the preparation of cash flow projections. Changing the assumptions could affect the fair value of identifiable assets acquired and liabilities assumed in the process of purchase price allocation and as a result affect the amounts of goodwill and intangible assets arising from acquisitions and the financial position of ECG.

- (c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimations by the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-down of inventories in the period in which such estimate is changed.

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 and Fast Moving Consumer Goods 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, depreciation of right-of-use assets, amortisation of intangible assets, finance income, finance expense, ECG's share of results from an associate and a joint venture, provision for impairment of interest in an associate, gain or loss on fair value of acquisition and financial derivatives and provision for impairment of goodwill.

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:

	2019			
	Greater China HK\$	Australia HK\$	Unallocated corporate income/ (expense) HK\$	Consolidated HK\$
Revenue from external customers	89,113,853	85,892,762	-	175,006,615
Revenue from related companies (Note 31)	-	-	2,400,000	2,400,000
	<u>89,113,853</u>	<u>85,892,762</u>	<u>2,400,000</u>	<u>177,406,615</u>
Gross profit	<u>13,018,035</u>	<u>47,548,799</u>	<u>2,400,000</u>	<u>62,966,834</u>
EBITDA (loss)/gain – excluding impact of foreign exchange	(9,318,117)	11,404,655	(8,742,675)	(6,656,137)
Net foreign exchange loss	(133,710)	(153,377)	(195,851)	(482,938)
Depreciation of property, plant and equipment	(521,827)	(220,311)	(570,140)	(1,312,278)
Depreciation of right-of-use assets	(906,798)	(988,242)	-	(1,895,040)
Amortisation of intangible assets	-	(4,159,754)	(8,212,342)	(12,372,096)
Finance income	-	15,359	22,819	38,178
Finance expense	(118,637)	(229,434)	(4,994,524)	(5,342,595)
Provision for impairment of goodwill	-	-	(49,276,724)	(49,276,724)
Share of profit from a joint venture	477,699	-	-	477,699
Gain on fair value of contingent liabilities	-	-	1,893,014	1,893,014
	<u>(10,521,390)</u>	<u>5,668,896</u>	<u>(70,076,423)</u>	<u>(74,928,917)</u>
(Loss)/profit before income tax	2,162,714	(1,799,651)	-	363,063
Income tax credit/(expense)	<u>(8,358,676)</u>	<u>3,869,245</u>	<u>(70,076,423)</u>	<u>(74,565,854)</u>
(Loss)/profit for the year				

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:

	2018			
	Greater China HK\$	Australia HK\$	Unallocated corporate income/ (expense) HK\$	Consolidated HK\$
Revenue from external customers	32,947,713	97,010,212	-	129,957,925
Revenue from related companies (Note 31)	2,100,724	-	2,400,000	4,500,724
	<u>35,048,437</u>	<u>97,010,212</u>	<u>2,400,000</u>	<u>134,458,649</u>
Gross profit	<u>16,246,429</u>	<u>52,816,782</u>	<u>2,400,000</u>	<u>71,463,211</u>
EBITDA (loss)/gain – excluding impact of foreign exchange	(4,281,014)	6,312,500	(12,122,156)	(10,090,670)
Net foreign exchange loss	(723,727)	(35,692)	(443,966)	(1,203,385)
Depreciation of property, plant and equipment	(382,451)	(234,106)	(561,585)	(1,178,142)
Amortisation of intangible assets	-	(1,835,145)	(21,351,231)	(23,186,376)
Finance income	5,381	38,043	2,934	46,358
Finance expense	-	-	(2,214,562)	(2,214,562)
Share of profit from an associate	-	-	555,323	555,323
Provision for impairment of interest in an associate	-	-	(72,504,113)	(72,504,113)
Fair value gain on financial assets at fair value through profit or loss	-	-	13,930,290	13,930,290
Loss on disposal of interest in an associate	-	-	(38,992,851)	(38,992,851)
	<u>(5,381,811)</u>	<u>4,245,600</u>	<u>(133,701,917)</u>	<u>(134,838,128)</u>
Income tax (expense)/credit	(25,969)	(770,265)	938,477	142,243
(Loss)/profit for the year	<u>(5,407,780)</u>	<u>3,475,335</u>	<u>(132,763,440)</u>	<u>(134,695,885)</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Segment information (Continued)

The segment assets as at 31 December 2019 and 2018 are as follows:

	Greater China HK\$	Australia HK\$	Unallocated Corporate Assets/ Liabilities HK\$	Consolidated HK\$
As at 31 December 2019				
Segment assets	53,433,168	29,225,436	60,223,143	142,881,747
Deferred income tax assets	343,451	1,355,637	-	1,699,088
	<u>53,776,619</u>	<u>30,581,073</u>	<u>60,223,143</u>	<u>144,580,835</u>
Segment liabilities	<u>(137,931,644)</u>	<u>(18,066,201)</u>	<u>(18,855,842)</u>	<u>(174,853,687)</u>
As at 31 December 2018				
Segment assets	33,281,776	35,561,430	98,685,150	167,528,356
Interest in an associate	-	-	-	-
Additions to non-current assets	1,779,160	256,552	-	2,035,712
	<u>35,060,936</u>	<u>35,817,982</u>	<u>98,685,150</u>	<u>169,564,068</u>
Segment liabilities	<u>31,352,046</u>	<u>24,779,599</u>	<u>67,033,427</u>	<u>123,165,072</u>

Information about major customer

For the year ended 31 December 2019, there were no single external customers contributing 10% or more of ECG's total revenue.

For the year ended 31 December 2018, there were two single external customers contributing 10% or more of ECG's total revenue.

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****5 Segment information (Continued)**

ECG has recognised the following assets and liabilities related to contracts with customers:

	2019 HK\$	2018 HK\$
Contract assets	<u>3,325,508</u>	<u>3,767,479</u>
Contract liabilities	<u>2,155,757</u>	<u>2,386,262</u>

Significant changes in contract assets and liabilities

During the year ended 31 December 2019, the balances of contract assets have decreased since less unbilled amount. ECG also applied the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets. No impairment was made for contract assets as at 31 December 2019 and 2018.

The balance of contract liabilities have decreased due to the decrease in overall contract activities in the year.

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2019 HK\$	2018 HK\$
<i>Revenue recognised that was included in the contract liability balance at the beginning of the year</i>		
Services income	<u>2,386,262</u>	<u>2,324,144</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Revenue

Revenue recognised during the year was as follows:

	2019 HK\$	2018 HK\$
Revenue		
- Service income	106,375,273	132,432,176
- Sales of goods	71,031,342	2,026,473
	<u>177,406,615</u>	<u>134,458,649</u>

7 Expenses by nature

	2019 HK\$	2018 HK\$
Outsourced services fulfilment expenses, included in cost of sales	8,551,061	13,369,784
Outsourced web development and IT consultation costs, included in cost of sales	-	3,675,987
Subscription expense for software application, included in cost of sales	38,343,963	44,193,430
Other direct costs, included in cost of sales	10,188,415	-
Cost of inventories, included in cost of sales	57,161,381	1,756,237
Written down of inventories	194,961	-
Auditor's remuneration	1,600,000	1,643,750
Employee benefit expenses (Note 8)	56,179,838	62,308,948
Outsourced labour costs	600,000	600,000
Amortisation of intangible assets (Note 15)	12,372,096	23,186,376
Depreciation of property, plant and equipment (Note 14)	1,312,278	1,178,142
Depreciation of right of use assets (Note 14(b))	1,895,040	-
Legal and professional expenses	4,325,054	4,208,132
Travel expenses	2,671,710	2,376,829
Operating leases rental	3,057,030	4,106,910
Advertising expenses	1,378,556	-
IT expenses	969,671	1,745,954
Marketing expenses	518,403	548,500
Utilities and maintenance expenses	610,993	1,065,752
Telecommunication expenses	289,356	291,620
Insurance expenses	358,028	206,115
Provision for impairment of trade receivables (Note 3.2)	573,719	-
Other expenses	<u>2,609,035</u>	<u>2,451,371</u>

8 Employee benefit expenses (including Directors' emoluments)

	2019 HK\$	2018 HK\$
Wages and salaries	50,583,990	57,561,528
Pension costs	2,439,770	3,713,874
Other employee benefits and welfare	3,156,078	1,033,546
	<u>56,179,838</u>	<u>62,308,948</u>

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))

(a) Directors' emoluments

The remuneration of each Director is set out below:

For the year ended 31 December 2019:

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

					Emoluments paid or receivable in respect of Director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
	<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>Total</u>
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Mr. John Lau	-	-	-	-	-	-
Mr. Christopher Lau	-	-	-	-	-	-
Mr. Rupert Myer AO#	98,249	-	-	-	-	98,249
Mr. Heath Zarin#	95,289	-	-	-	-	95,289
Ms. Jessica Rudd ¹	98,249	-	-	-	-	98,249
Mr. Dennis Lin ²	82,188	-	-	-	-	82,188
Mr. Yuming Zou ³	-	-	-	-	-	-
	<u>373,975</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>373,975</u>

#: Independent Non-Executive Directors

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

1: Resigned on 22 January 2020

2: Resigned on 31 October 2019

3: Appointed on 22 January 2020

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 2018:

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> HK\$	<u>Salary</u> HK\$	<u>Others*</u> HK\$	<u>scheme</u> HK\$	<u>as Director</u> HK\$	<u>undertaking</u> HK\$	<u>HK\$</u>
Mr. John Lau	-	-	-	-	-	-	-
Mr. Christopher Lau ¹	-	-	-	-	-	-	-
Mr. Rupert Myer AO#	88,980	-	-	-	-	-	88,980
Mr. Christopher Ryan# ³	46,610	-	-	-	-	-	46,610
Mr. Heath Zarin#	-	-	-	-	-	-	-
Ms. Jessica Rudd ⁴	89,987	-	-	-	-	-	89,987
Mr. Dennis Lin# ²	67,488	-	-	-	-	-	67,488
	<u>293,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>293,065</u>

#: Independent Non-Executive Directors

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

1: Re-designated from executive director to non-executive director on 14 March 2018

2: Appointed on 9 April 2018

3: Resigned on 9 April 2018

4: Appointed on 24 January 2018

(b) Directors' retirement benefits and termination benefits

None of the Directors received or will receive any retirement benefits or termination benefits during the year (2018: 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 (2018: 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))**

- (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 (2018: Nil).

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

Other than those disclosed in Note 31 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 income

	2019 HK\$	2018 HK\$
Distributions received (Note 17)	6,118,422	-
Fair value gain on contingent liabilities	1,893,014	-
	<u>8,011,436</u>	<u>-</u>

Other losses - net

	2019 HK\$	2018 HK\$
Net foreign exchange loss	<u>(482,938)</u>	<u>(1,203,385)</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Finance expense - net

	2019 HK\$	2018 HK\$
Finance income:		
- Interest income on short-term bank deposits	38,178	46,358
	-----	-----
Finance expense:		
- Interest and finance charge paid/payable for lease liabilities (Note 14(b))	(341,549)	-
- Interest expense on borrowings (Note 31 (g))	(4,120,175)	(2,214,562)
- Interest expense on put option liabilities and contingent consideration	(880,871)	-
	-----	-----
	(5,342,595)	(2,214,562)
	-----	-----
Finance expense - net	(5,304,417)	(2,168,204)
	=====	=====

12 Income tax credit

	2019 HK\$	2018 HK\$
Australian corporate tax		
- Current income tax	1,861,408	1,920,285
PRC corporate tax		
- Current income tax	-	25,969
Deferred income tax (Note 24)	(2,224,471)	(2,088,497)
	-----	-----
Income tax credit	(363,063)	(142,243)
	=====	=====

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% (2018:16.5%). For the year ended 31 December 2019, tax recession relates to tax reduction to tax payable under Two-Tiered Profits Rates Regime capped at HK\$165,000 for one of the Hong Kong incorporated entities of the Group (2018: same). No provision for Hong Kong profits tax has been made as ECG had no assessable profit for the year ended 31 December 2019 in Hong Kong (2018: Nil).

Subsidiaries established in Australia and the PRC are subject to 30% (2018: 30%) and 25% (2018: 25%) income tax rate during the year respectively.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Income tax credit (Continued)

The tax on ECG's loss 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.

	2019 HK\$	2018 HK\$
Loss before income tax	(74,928,917)	(134,838,128)
Tax calculated at a domestic tax rates applicable loss in the respective countries	(14,512,016)	(21,997,602)
Tax effect of:		
- Associates' results reported net of tax	(78,820)	(91,628)
- Income not subject to tax	(1,321,887)	(2,917,077)
- Expenses not deductible for tax purposes	9,138,579	21,563,876
- Tax losses for which no deferred income tax assets were recognised	6,411,081	3,798,759
- Utilization of previously unrecognised tax loss	-	(498,571)
Income tax credit	(363,063)	(142,243)

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.

	2019 HK\$	2018 HK\$
Loss attributable to owners of the Company	74,565,854	134,401,793
Weighted average number of ordinary shares in issue	615,250,000	610,193,151
Basic loss per share (HK\$ cents per share)	12.12	22.03

(b) Diluted

Diluted loss per share for the year ended 31 December 2019 and 2018 are equal to the basic loss per share as there are no potential dilutive ordinary shares outstanding during the year.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Property, plant and equipment

	Furniture and fixtures HK\$	Computer equipment HK\$	Office equipment HK\$	Leasehold improvements HK\$	Total HK\$
Year ended 31 December 2019					
Opening net book amount	352,791	392,890	80,038	938,183	1,763,902
Acquisition of a subsidiary (Note 30)	11,881	12,756	17,007	-	41,644
Additions	6,539	109,994	-	97,142	213,675
Depreciation charge (Note 7)	(56,096)	(247,506)	(91,782)	(916,894)	(1,312,278)
Currency translation differences	(2,897)	(6,569)	6,437	(50,151)	(53,180)
Closing net book amount	<u>312,218</u>	<u>261,565</u>	<u>11,700</u>	<u>68,280</u>	<u>653,763</u>
As at 31 December 2019					
Cost	693,528	2,528,772	1,230,429	4,564,923	9,017,652
Accumulated depreciation and impairment	(381,310)	(2,267,207)	(1,218,729)	(4,496,643)	(8,363,889)
Net book amount	<u>312,218</u>	<u>261,565</u>	<u>11,700</u>	<u>68,280</u>	<u>653,763</u>
Year ended 31 December 2018					
Opening net book amount	400,301	565,130	744,843	1,620,051	3,330,325
Acquisition of a subsidiary (Note 30)	-	23,257	-	-	23,257
Additions	59,257	528,489	1,421,554	26,412	2,035,712
Disposals	-	(350,848)	(1,972,552)	-	(2,323,400)
Depreciation charge (Note 7)	(71,946)	(338,119)	(109,683)	(658,394)	(1,178,142)
Currency translation differences	(34,821)	(35,019)	(4,124)	(49,886)	(123,850)
Closing net book amount	<u>352,791</u>	<u>392,890</u>	<u>80,038</u>	<u>938,183</u>	<u>1,763,902</u>
As at 31 December 2018					
Cost	661,434	2,267,593	622,561	4,448,982	8,000,570
Accumulated depreciation and impairment	(308,643)	(1,874,703)	(542,523)	(3,510,799)	(6,236,668)
Net book amount	<u>352,791</u>	<u>392,890</u>	<u>80,038</u>	<u>938,183</u>	<u>1,763,902</u>

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****14(b) Leases**

This note provides information for leases where ECG is a lessee.

(i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2019 HK\$	1 January 2019* HK\$
Right-of-use assets		
Buildings	5,576,128	5,547,945
Lease liabilities		
Current	1,745,834	1,086,905
Non-current	4,178,017	4,461,040
	5,923,851	5,547,945

* In the previous year, ECG only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under HKAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of ECG's borrowings. For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to Note 2.2.

Additions to the right-of-use assets during the 2019 financial year were HK\$1,201,309.

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****14(b) Leases (Continued)**

- (ii) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income show the following amounts relating to leases:

	Note	2019 HK\$	2018 HK\$
Depreciation charge of right-of-use assets			
Buildings	7	1,895,040	-
Interest expense (included in finance cost)	11	341,549	-
Expenses relating to short-term leases (included in administrative expenses)	7	3,057,030	-
		3,398,579	-

The total cash outflow for leases in 2019 was HK\$1,883,737.

- (iii) ECG's leasing activities and how these are accounted for

ECG leases various offices and warehouses. Rental contracts are typically made for fixed periods of 12 months to 3 years, but may have extension options as described in (iv) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

- (iv) Extension and termination options

Extension and termination options are included in a number of property leases across ECG. These are used to maximise operational flexibility in terms of managing the assets used in ECGs operations. The majority of extension and termination options held are exercisable only by ECG and not by the respective lessor.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Intangible assets

	Goodwill HK\$	Contractual customer relationship HK\$	Suppliers relationship HK\$	Brand name HK\$	Software HK\$	Total HK\$
Year ended 31 December 2019						
Opening net book amount	56,241,091	1,448,446	16,447,883	24,436,020	6,686,351	105,259,791
Acquisition of a subsidiary (Note 30)	12,728,104	-	8,840,233	-	-	21,568,337
Amortisation charge (Note 7)	-	(1,325,273)	(4,093,137)	(2,793,932)	(4,159,754)	(12,372,096)
Impairment of goodwill	(49,276,724)	-	-	-	-	(49,276,724)
Currency translation differences	(1,116,946)	(12,849)	(325,934)	(237,160)	(61,349)	(1,754,238)
Closing net book value	18,575,525	110,324	20,869,045	21,404,928	2,465,248	63,425,070
As at 31 December 2019						
Cost	67,800,865	6,619,456	25,523,158	27,910,185	112,244,432	240,098,096
Accumulated amortisation and impairment	(49,225,340)	(6,509,132)	(4,654,113)	(6,505,257)	(109,779,184)	(176,673,026)
Net book value	18,575,525	110,324	20,869,045	21,404,928	2,465,248	63,425,070
Year ended 31 December 2018						
Opening net book amount	13,572,170	3,081,840	-	6,857,475	27,366,191	50,877,676
Acquisition of a subsidiary (Note 30)	45,473,872	-	17,586,370	20,089,601	-	83,149,843
Amortisation charge (Note 7)	-	(1,430,464)	(581,701)	(1,268,415)	(19,905,796)	(23,186,376)
Currency translation differences	(2,804,951)	(202,930)	(556,786)	(1,242,641)	(774,044)	(5,581,352)
Closing net book value	56,241,091	1,448,446	16,447,883	24,436,020	6,686,351	105,259,791
As at 31 December 2018						
Cost	56,241,091	6,685,130	17,015,051	28,187,109	117,830,467	225,958,848
Accumulated amortisation	-	(5,236,684)	(567,168)	(3,751,089)	(111,144,116)	(120,699,057)
Net book value	56,241,091	1,448,446	16,447,883	24,436,020	6,686,351	105,259,791

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Intangible assets (Continued)

Notes:

(a) Goodwill of cash generating unit (“CGU”)

Goodwill is attributable to the Australia CGU and FMCG CGU. The recoverable amount of Australia CGU and FMCG CGU are determined based on value in use calculation. The calculation uses pre-tax cash flow projections based on financial budget approved by management. 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.

(i) Australia CGU

The key assumptions used for value in use calculation in 2019 and 2018 for Australia CGU is as follows:

Compound annual growth rate (“CAGR”) of revenue for the five-year period	3.5%
Terminal growth rate	3%
Discount rate	20%
EBITDA margin	Between 8% to 11%
Management determined budgeted EBITDA 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 Australia CGU, the recoverable amount calculated based on value in use exceeded carrying value. As such, there was no indication of impairment arising from the review on goodwill as at 31 December 2019 and 2018.

If the EBITDA margin was reduced by 10% and terminal growth rate was reduced by 1%, with all other variables held constant, the change of result would not result in impairment of the asset.

(ii) FMCG CGU

Following the acquisition of Metcash Export Services Pty Limited (“MES”) and its subsidiary, Metcash Asia Limited (“MAL”) (collectively, the “MES Group”) as disclosed in Note 30, ECG has been combining certain resources of Jessica’s Suitcase (“JS”) and MES Group to leverage their respective strengths and resources. ECG integrated the operations of JS and MES Group where they will be considered as a single cash generating unit (“CGU”) going forward. Accordingly, ECG has recalculated the recoverable amount of the goodwill and intangible assets of JS on a standalone basis prior to the combination of the CGUs based on a value-in-use calculation. An impairment loss of HK\$17,506,013 was recognised for the goodwill of JS, reducing the carrying amount of the goodwill of JS to approximately HK\$26,000,000.

The recoverable amount of JS was determined based on a value-in-use calculation. The following table sets out the key assumptions for JS where the value-in-use calculation was updated as at 30 June 2019:

	30 June 2019
CAGR of revenue for the five-year period	19%
Terminal growth rate	2%
Discount rate	21.04%
EBITDA margin	Between 17% to 23%

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****15 Intangible assets (Continued)**

Notes:

(a) Goodwill of cash generating unit ("CGU") (Continued)

(ii) FMCG CGU (Continued)

The recoverable amount of FMCG was determined based on a value-in-use calculation. The following table sets out the key assumptions for FMCG where the value-in-use calculation is as follows:

CAGR of revenue for the seven-year period	15.73%
Terminal growth rate	2%
Discount rate	21.49%
EBITDA margin	Between 5%-11%

An impairment loss of HK\$31,770,711 was recognised for the goodwill of FMCG CGU, reducing the carrying amount of the goodwill to approximately HK\$6,429,052.

If the CARG of revenue for seven-year period was reduced by 2%, with all other variables held constant, ECG would have had to recognise a further impairment loss approximately of HK\$8 million.

(b) Impairment tests for intangible assets of CGUs

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

	2019 HK\$	2018 HK\$
Australia CGU (Note i)		
- Contractual customer relationship	110,324	1,448,446
- Brand name	4,404,292	5,323,006
- Software	2,465,248	6,686,351
	<u>6,979,864</u>	<u>13,457,803</u>
FMCG CGU (Note ii)		
- Contractual customer relationship	20,869,044	-
- Brand name	17,000,637	-
	<u>37,869,681</u>	<u>-</u>

(i) Australia CGU

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

(ii) FMCG CGU

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

Amortisation expense of HK\$12,372,096 (2018: HK\$23,186,376) has been charged to administrative expenses.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Subsidiaries

As at 31 December 2019, the Company has direct and indirect interests in the following subsidiaries:

<u>Name</u>	<u>Place of incorporation/ establishment 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/registered capital</u>
eCargo Enterprise Limited	Hong Kong, limited liability	Provision of eCommerce technologies services in Hong Kong	100%	-	HK\$10,000 ordinary share capital
eCargo Limited	United Kingdom, limited liability	In the progress of being dissolved	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
Jessica's Suitcase Pty Limited	Australia, limited liability	Operate an online store	100%	-	2,116 ordinary shares of A\$51,513
ECG Distribution Holding Limited	BVI, limited liability	Investment holdings in BVI	100%	-	50,000 ordinary shares of US\$1 each
ECG Asia Limited	BVI, limited liability	Investment holdings in BVI	100%	-	50,000 ordinary share of US\$1 each
ECG Australia Pty Limited	Australia, limited liability	Provision of corporate services	100%	-	1,000 ordinary shares of A\$1 each
ECG Digital Commerce Limited	Hong Kong, limited liability	Provision of eMarketplace technology services in Hong Kong	-	100%	HK\$10,000 ordinary share capital
eCargo (China) Holdings Limited	BVI, limited liability	Investment holdings in BVI	-	100%	1 ordinary share of US\$1 each
Enrich Technologies Limited	BVI, limited liability	Dormant	-	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	Investment holdings in Hong Kong	-	100%	HK\$100 ordinary share capital

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Subsidiaries (Continued)

As at 31 December 2019, the Company has direct and indirect interests in the following subsidiaries: (Continued)

<u>Name</u>	<u>Place of incorporation/ establishment 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/registered capital</u>
Jessica's Suitcase Co. Limited	Hong Kong, limited liability	Dormant	-	100%	HK\$10,000 ordinary share capital
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%	RMB13,000,000 registered share capital
杰叶商貿(上海) 有限公司	The PRC, limited liability	Provision of eCommerce support and marketing services in PRC	-	100%	US\$10,000,000 registered share capital
Metcash Export Services Pty Limited	Australia, limited liability	Operate an online store and trading of FMCG	-	85% (note)	100 ordinary shares of A\$1 each
Metcash Asia Limited	The PRC, limited liability	Provision of eCommerce support and marketing services in PRC	-	85% (note)	RMB 9,000,000 registered share capital

Note

ECG acquired 85% interest in Metcash Export Services Pty Limited and Metcash Asia Limited. Management concluded that ECG has effectively control the remaining 15% equity interest of MES Group. As such, ECG has not recognised any non-controlling interest in respect of the remaining 15% equity interest legally held by MES and accounted for MES Group as 100% owned. For details, please refer to Note 30(b).

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Interests in associates and a joint venture

	2019 HK\$	2018 HK\$
<u>Interest in associates</u>		
At beginning of the year	-	72,504,113
Acquisition of interest in an associate (Note a)	-	69,083,038
Share of results from an associate	-	555,323
Step acquisition from an associate to a subsidiary (Note b)	-	(69,638,361)
Provision for impairment of interest in an associate (Note c)	-	(72,504,113)
	<hr/>	<hr/>
At end of the year	-	-
	<hr/>	<hr/>
<u>Interest in a joint venture</u>		
At beginning of the year	-	-
Investment in a joint venture (Note d)	545	-
Share of results from a joint venture	477,699	-
Dividend received from a joint venture	(264,690)	-
	<hr/>	<hr/>
At end of the year	213,554	-
	<hr/>	<hr/>
Interests in associate and a joint venture	213,554	-
	<hr/>	<hr/>

Notes:

- (a) On 24 January 2018, ECG completed the acquisition of Jessica's Suitcase Pty Limited ("Jessica's Suitcase") with 45% equity interest in Jessica's Suitcase in consideration of issuance to the shareholders of Jessica's Suitcase of such number of CHES Depository Interest ("CDIs") equal to 15% of the CDIs in ECG, namely 80,250,000 CDIs or equivalent to a purchase consideration of HK\$98.4 million. Further details of the acquisition of interest in an associate is disclosed in Note 30 to the consolidated financial statements.
- (b) On 8 November 2018, ECG exercised a call option to acquire the remaining 55% equity of Jessica's Suitcase. Upon the completion of acquisition, Jessica's Suitcase became the wholly owned subsidiary of ECG. Details of the step acquisition is disclosed in Note 30 to the consolidated financial statements.
- (c) On 25 July 2016, ECG entered into a deed with Walton Brown E-commerce Limited ("Walton Brown") for an investment of RMB60 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 company 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.

During the year ended 31 December 2018, the WWE business model and future funding requirements to continue the development of its business were reviewed by the shareholders of MM. Management has considered the fact that MM has ceased its operation since November 2018. Accordingly, the management has performed an impairment assessment and determined that a provision for impairment of HK\$72.5 million is necessary to state the investment to its recoverable amount.

During the year ended 31 December 2019, WWE winded up and distributed all of the residual assets to shareholder and ECG received cash of HK\$6,118,422 as a result (Note 10).

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****17 Interest in associates and a joint venture (Continued)**

Notes: (Continued)

- (d) In September 2019, ECG established Asean Business Group Pty Ltd (“ABG”) with two other independent third party shareholders in September 2019. ECG holds 33.33% equity interest in ABG. ABG is a limited liability company incorporated in Australia and is engaged in the trading of fast moving consumer goods in Vietnam and Cambodia. ECG jointly control ABG with the other shareholders as the key operating and financial decisions of ABG required unanimous consent from all the shareholders.

Summarised unaudited financial information for a joint venture

Set out below is the summarised unaudited financial information of the joint venture as at and for the year ended 31 December 2019 which are accounted for using the equity method.

	ABG 2019 HK\$
Current assets	3,645,019
Current liabilities	3,005,993
Profit after income tax	1,458,437

The information above reflects the amounts presented in the financial statements of the joint venture 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 ABG.

	ABG 2019 HK\$
Net assets	
Beginning of year	-
Profit for the year	1,458,437
Distribution to shareholders	(817,890)
Currency translation difference	115
End of year	640,662
Percentage of ownership interest	33.33%
Interest in a joint venture	213,554

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Financial instruments by category

	2019 HK\$	2018 HK\$
Financial assets		
Financial assets at amortised cost		
Trade and other receivables (excluding prepayments)	22,778,328	20,712,421
Contract assets	3,325,508	3,767,479
Amounts due from related parties	3,054,309	9,497,723
Cash and cash equivalents	26,946,542	17,614,983
	<u>56,104,687</u>	<u>51,592,606</u>
Financial liabilities		
Liabilities at amortised cost		
Trade and other payables (excluding non-financial liabilities)	29,889,344	21,289,860
Contract liabilities	2,155,757	2,386,262
Amounts due to related parties	25,884,280	21,371,406
Borrowings	85,603,517	58,420,349
Put option liabilities	7,653,888	-
Lease liabilities	5,923,851	-
	<u>157,110,637</u>	<u>103,467,877</u>

19 Inventories

	2019 HK\$	2018 HK\$
Finished goods	<u>15,501,990</u>	<u>1,787,805</u>

The cost of inventories recognised as an expense and included in “cost of sales” amounted to HK\$57,161,381 (2018: HK\$1,756,237).

Written down of inventories to net realisable value amounted to HK\$194,961 (2018: Nil). These were recognised as an expense during the year ended 31 December 2019 and included in “cost of sales” in the consolidated statement of comprehensive income.

20 Trade receivables

	2019 HK\$	2018 HK\$
Trade receivables	19,657,405	18,637,762
Less: provision for impairment	(789,539)	(221,800)
	<u>18,867,866</u>	<u>18,415,962</u>

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

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Trade receivables (Continued)

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

	2019 HK\$	2018 HK\$
1 – 30 days	12,532,579	10,727,427
31 – 60 days	3,039,972	3,139,667
61 – 90 days	110,750	807,313
Over 90 days	3,184,565	3,741,555
	<u>18,867,866</u>	<u>18,415,962</u>

ECG applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The loss allowance increased by a further HK\$567,739 to HK\$789,539 for trade receivables during the current reporting period. 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.

Information about the impairment of trade receivables, ECG's exposure to credit risk and foreign currency risk and details about the calculation of the allowance can be found in Note 3.2.

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

	2019 HK\$	2018 HK\$
HK\$	357,459	1,394,480
RMB	6,371,627	4,859,021
A\$	9,457,283	9,064,041
US\$	203,366	194,014
Pound sterling ("GBP")	57,705	9,058
Singapore dollar ("SG\$")	-	311,837
EURO ("EUR")	40,118	169,020
NZ\$	2,380,308	2,414,491
	<u>18,867,866</u>	<u>18,415,962</u>

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

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 Prepayments, deposits and other receivables

	2019 HK\$	2018 HK\$
Prepayments	1,406,555	7,853,180
Rental and utilities deposits	1,885,248	2,240,004
Other receivables	2,025,214	56,455
	<hr/>	<hr/>
Prepayments, deposits and other receivables	5,317,017	10,149,639
Less: non-current portion		
Prepayment and deposits	(397,970)	(7,346,835)
	<hr/>	<hr/>
Current portion	4,919,047	2,802,804
	<hr/> <hr/>	<hr/> <hr/>

Certain deposits have been pledged to secure rental deposits owned by the Company.

Other receivables were neither past due nor impaired and they were interest-free and repayable on demand as at 31 December 2019 and 2018. 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:

	2019 HK\$	2018 HK\$
HK\$	422,375	373,191
RMB	650,054	418,870
A\$	2,838,033	1,504,398
	<hr/>	<hr/>
	3,910,462	2,296,459
	<hr/> <hr/>	<hr/> <hr/>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	2019 HK\$	2018 HK\$
Cash on hand		
HK\$	63,204	5,880
RMB	21,704	42,012
A\$	-	5,046
SG\$	-	1,143
	<u>84,908</u>	<u>54,081</u>
	-----	-----
Cash at banks		
HK\$	536,162	1,745,923
RMB	4,058,192	3,108,149
A\$	22,112,826	12,494,756
US\$	41,618	59,807
GBP	89,593	3,578
NZ\$	12,006	12,005
EUR	7,469	133,052
Canadian dollar ("CAD")	3,768	3,632
	<u>26,861,634</u>	<u>17,560,902</u>
	-----	-----
Total	<u><u>26,946,542</u></u>	<u><u>17,614,983</u></u>

As at 31 December 2019, the amount of cash at banks represented ECG's maximum exposure to credit risk.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 Trade payables, other payables and accruals

	2019 HK\$	2018 HK\$
Trade payables	22,729,634	11,088,473
Accrued expenses	5,689,287	9,512,258
Accrued employee benefit expenses	3,379,819	4,312,576
Other payables	3,808,424	3,330,932
Contingent consideration	379,613	-
Other payables and accruals	13,257,143	17,155,766
Less: non-current portion		
Other payables	(763,364)	-
	12,493,779	17,155,766
	35,223,413	28,244,239

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

	2019 HK\$	2018 HK\$
HK\$	2,602,807	4,473,477
RMB	2,630,903	1,402,740
A\$	27,695,178	22,142,713
NZ\$	1,029,391	-
US\$	1,285,308	166,111
EUR	41,294	59,198
GBP	701,896	-
	35,986,777	28,244,239

24 Deferred income tax

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

	2019 HK\$	2018 HK\$
Deferred income tax assets:		
- to be recovered within 12 months	310,003	919,734
- to be recovered after more than 12 months	1,389,085	387,050
Deferred income tax liabilities:		
- to be recovered within 12 months	(2,162,715)	(2,000,287)
- to be recovered after more than 12 months	(8,659,079)	(8,921,370)
Deferred income tax liabilities – net	(9,122,706)	(9,614,873)

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:

	2019 HK\$	2018 HK\$
At 1 January	(9,614,873)	(2,725,239)
Acquisition of a subsidiary (Note 30)	(1,851,894)	(9,418,992)
Credited to the consolidated statement of comprehensive income (Note 12)	2,224,471	2,088,497
Currency translation differences	119,590	440,861
At 31 December	<u>(9,122,706)</u>	<u>(9,614,873)</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:

	2019 HK\$	2018 HK\$
Deferred income tax assets		
At 1 January	1,306,784	256,553
Acquisition of a subsidiary (Note 30)	358,164	-
Credited to the consolidated statement of comprehensive income	61,756	1,150,021
Currency translation differences	(27,616)	(99,790)
At 31 December	<u>1,699,088</u>	<u>1,306,784</u>
Deferred income tax liabilities		
At 1 January	(10,921,657)	(2,981,792)
Acquisition of a subsidiary (Note 30)	(2,210,058)	(9,418,992)
Credited to the consolidated statement of comprehensive income	2,162,715	938,476
Currency translation differences	147,206	540,651
At 31 December	<u>(10,821,794)</u>	<u>(10,921,657)</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\$151,063,846 (2018: HK\$140,901,395) arising in Hong Kong, HK\$4,901,965 (2018: HK\$ Nil) arising in Australia and HK\$24,357,419 (2018: HK\$11,302,669) arising in the PRC. The tax losses arising in Hong Kong and Australia 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\$
As at 1 January 2018	535,000,000	329,401,285
Issue of shares as consideration for the acquisition of an associate	80,250,000	98,419,683
As at 31 December 2018 and 2019	<u>615,250,000</u>	<u>427,820,968</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Notes to the consolidated statement of cash flows

(a) Cash generated from operations for the year comprises:

	2019 HK\$	2018 HK\$
Loss before income tax	(74,928,917)	(134,838,128)
Adjustments for:		
- Depreciation of property, plant and equipment (Note 14)	1,312,278	1,178,142
- Depreciation of right-of-use assets (Note 14(b))	1,895,040	-
- Amortisation of intangible assets (Note 15)	12,372,096	23,186,376
- Provision for impairment of interest in an associate (Note 17)	-	72,504,113
- Net foreign exchange loss on operating activities (Note 10)	482,938	1,203,385
- Provision for impairment of trade receivables (Note 3.2)	573,719	-
- Finance income (Note 11)	(38,178)	(46,358)
- Finance expense (Note 11)	5,342,595	2,214,562
- Share of results from an associate (Note 17)	-	(555,323)
- Share of results from a joint venture (Note 17)	(477,699)	-
- Provision for impairment for goodwill (Note 15)	49,276,724	-
- Fair value gain on financial assets at fair value through profit or loss	-	(13,930,290)
- Loss on disposal of interest in an associate	-	38,992,851
- Distributions received (Note 10)	(6,118,422)	-
- Fair value gain on contingent liabilities (Note 10)	(1,893,014)	-
- Written down of inventories (Note 19)	194,961	-
	(12,005,879)	(10,090,670)
Changes in working capital:		
- Inventories	4,032,810	843,743
- Trade receivables	6,323,069	13,855,780
- Contract assets	394,882	(3,767,479)
- Prepayments, deposits and other receivables	1,488,010	(451,548)
- Trade payables	11,701,409	(2,670,310)
- Contract liabilities	(209,943)	2,386,262
- Other payables and accruals	(7,999,834)	39,567
- Balances with related parties	11,219,982	3,760,169
Cash generate from operations	14,944,506	3,905,514

(b) During the year ended 31 December 2019, there is no equipment and computers were transferred to a related company through debiting amount due from related companies (2018: HK\$2,323,400).

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Notes to the consolidated statement of cash flows (Continued)

(c) Non-cash investing and financing activities

	2019 HK\$	2018 HK\$
Acquisition of interest in an associate by issue of shares	-	69,083,038
Acquisition of derivative financial instrument by issue of shares	-	29,336,645
Issue of shares as consideration for the acquisition of an associate (Note 25)	-	98,419,683

(d) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2019 HK\$	2018 HK\$
Net debt		
Cash and cash equivalents	26,946,542	17,614,983
Borrowings	(85,603,517)	(58,420,349)
Lease liabilities	(5,923,851)	-
Net debt	(64,580,826)	(40,805,366)
Cash and cash equivalents	26,946,542	17,614,983
Gross debt – fixed interest rates	(91,527,368)	(58,420,349)
	(64,580,826)	(40,805,366)

	Borrowings HK\$	Leases liabilities HK\$	Cash and cash equivalents HK\$	Total HK\$
Net debt as at				
1 January 2018	(44,412,560)	-	12,702,478	(31,710,082)
Cash flows	(9,500,000)	-	4,912,505	(4,587,495)
Acquisition of a subsidiary	(2,386,095)	-	-	(2,386,095)
Other changes	(2,214,562)	-	-	(2,214,562)
Foreign exchange adjustments	92,868	-	-	92,868
Net debt as at				
31 December 2018	(58,420,349)	-	17,614,983	(40,805,366)
Recognised on adoption of HKFRS 16	-	(5,547,945)	-	(5,547,945)
	(58,420,349)	(5,547,945)	17,614,983	(46,353,311)
Cash flows	(23,085,824)	1,883,737	9,331,559	(11,870,528)
Acquisition of a subsidiary	-	(1,076,503)	-	(1,076,503)
Acquisition – leases	-	(987,633)	-	(987,633)
Other changes	(4,120,175)	(341,549)	-	(4,461,724)
Foreign exchange adjustments	22,831	146,042	-	168,873
Net debt as at				
31 December 2019	(85,603,517)	(5,923,851)	26,946,542	(64,580,826)

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Borrowings

	2019 HK\$	2018 HK\$
Loans from a shareholder	<u>85,603,517</u>	<u>58,420,349</u>

On 29 August 2016, ECG entered into an agreement with JL Enterprises Holdings Limited, ECG'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. On 15 March 2017, an addendum agreement was signed to amend the maximum outstanding amount of the loan facility to HK\$70 million. On 14 February 2019, another addendum agreement was signed to amend the maximum outstanding amount of the loan facility to HK\$100 million (Note 31). As at 31 December 2019, the carrying amount of the borrowing from JL Enterprises Holdings Limited is HK\$85,603,517 (2018: HK\$56,111,770).

On 17 July 2018, Jessica's Suitcase entered into an agreement with JL Enterprises Holdings Limited as to provide a loan facility in an aggregate amount of up to A\$0.5 million to support Jessica's Suitcase working capital requirements. As at 8 November 2018, ECG entered into a deed of amendments to amend the terms in the original agreement to acquire Jessica's Suitcase. The fair value of borrowing from JL Enterprises Holdings Limited assumed at the acquisition date is A\$0.4 million (equivalent to HK\$2,386,095 (Note 31)). ECG has settled the balance of A\$0.4 million (equivalent to HK\$2,308,579) during the year ended 31 December 2019.

All loan facilities are unsecured and bear interest at prime rate quoted from the Hong Kong and Shanghai Banking Corporation Limited from time to time. All loan facilities can be utilised at ECG's demand and are repayable in accordance with a separate agreement to be made between ECG and JL Enterprises Holdings Limited.

The carrying amount of borrowings approximates to its fair value and is denominated in HK\$ and A\$.

The borrowings bear average coupon rate of 5%-5.125% per annum as at 31 December 2019 (2018: 5%-5.125% per annum).

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****28 Operating lease commitments - as lessee**

ECG leases various offices and warehouses under non-cancellable operating leases expiring within 12 months to 3 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, ECG has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 2.2 and Note 14(b) for further information.

	2019 HK\$	2018 HK\$
Minimum lease payments under non-cancellable operating leases not recognised in the financial statements are payable as follows:		
No later than one year	-	400,690
Later than one year and no later than five years	-	3,716,302
	<u>-</u>	<u>4,116,992</u>

29 Transactions with non-controlling interests

On 8 November 2018, ECG exercised a call option to acquire the remaining 55% of the issued share capital of Jessica's Suitcase. By acquiring Jessica's Suitcase, ECG acquired the remaining effective interest of 14.85% in ECG Australia Pty Limited ("ECG AUS"). Immediately prior to the purchase, the carrying amount of the existing 14.85% non-controlling interest in ECG AUS was HK\$294,092. ECG recognised a decrease in non-controlling interests of HK\$294,092 and a decrease in equity attributable to owners of the ECG of HK\$294,092. The effect on the equity attributable to the owners of ECG AUS during the year is summarised as follows:

	2019 HK\$	2018 HK\$
Carrying amount of non-controlling interests acquired	-	294,092
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	-	294,092

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Business combination

(a) Step acquisition of Jessica's Suitcase from an associate to a subsidiary of ECG

On 24 January 2018, ECG completed the acquisition of Jessica's Suitcase Pty Limited ("Jessica's Suitcase") with a 45% equity interest in Jessica's Suitcase in consideration of issuance to the shareholders of Jessica's Suitcase of such number of CHES Depository Interests ("CDIs") equal to 15% of the CDIs in ECG, namely 80,250,000 CDIs or equivalent to a purchase consideration of HK\$98.4 million.

Jessica's Suitcase operates an eCommerce store on Alibaba's Tmall Global Platform and a number of brand specific eCommerce Stores on various platforms in the PRC by offering quality Australia and New Zealand products to Chinese consumers through the cross-border online channel.

ECG initially recorded the acquisition of interest in an associate, Jessica's Suitcase, of HK\$69.1 million (Note 17) (the "Initial Acquisition"). The following intangible assets and goodwill arising from the acquisition based on the provisional purchase price allocation:

- Goodwill in the amount of HK\$33.5 million attributable to the acquired buyer-specific synergies and pre-existing and well-position sales network expected from combining the operations of ECG and Jessica's Suitcase, thereby allowing ECG to establish its leading presence in e-Commerce business provided by ECG.
- Brand name and suppliers relationship in the amount of HK\$36.3 million arising from the pre-existing network set up by Jessica's Suitcase.

ECG also recognised the call option to purchase the remaining 55% equity of Jessica's Suitcase initially at fair value of approximately HK\$29.3 million as a derivative financial instrument on date of the acquisition.

The fair value of assets has been determined on a provisional basis as the fair value of identifiable assets acquired may be adjusted upon the completion of initial accounting year which shall not exceed one year from the respective acquisition date. The fair value is being valued by Asset Appraisal Limited, an independent qualified professional valuer, not connected to ECG.

On 8 November 2018, ECG entered into a deed of amendments to amend the terms in the original agreement to acquire Jessica's Suitcase. Due to the modification of the terms, ECG derecognised the original call option and recognised call option under the revised terms at its fair value of HK\$43.2 million. The difference in fair value of HK\$13.9 million was recognised as gain in the consolidated statement of comprehensive income.

On the same date, ECG exercised a call option to acquire the remaining 55% of the issued share capital of Jessica's Suitcase. Upon the derecognition of interest in an associate, ECG has recognised the loss on disposal of HK\$39.0 million from the 45% equity interest in Jessica's Suitcase. The loss is included in the consolidated statement of comprehensive income for the year ended 31 December 2018.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Business combination (Continued)

(a) Step acquisition of Jessica's Suitcase from an associate to a subsidiary of ECG (Continued)

The following tables summarises the consideration for the step acquisition (the "Step Acquisition"), and the fair value of the assets acquired and liabilities assumed at the acquisition date:

	HK\$
Purchase consideration	
Fair value of call option	43,266,935
Fair value of interest in Jessica's Suitcase previously held by ECG	30,645,511
	<u>73,912,446</u>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	374,889
Property, plant and equipment	23,257
Trade and other receivable	1,298,196
Inventories	2,662,950
Intangible asset – brand name	20,089,601
Intangible asset – supplier relationship	17,586,370
Trade and other payable	(1,791,602)
Borrowings	(2,386,095)
Deferred tax liabilities	(9,418,992)
	<u>28,438,574</u>
Total identifiable net assets	45,473,872
Goodwill	<u>73,912,446</u>

There are no contingent liabilities relating to Step Acquisition.

Acquisition related costs approximately HK\$387,000 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2018.

	HK\$
Inflow of cash to acquire business, net of cash	
Cash consideration	-
Cash and cash equivalent of subsidiaries acquired	374,889
	<u>374,889</u>

None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of trade and other receivables is HK\$1,298,196 and includes trade receivables with a fair value of HK\$262,988. No trade receivables due is expected to be uncollectible.

The acquired business contributed HK\$2,562,346 to ECG's total revenue and HK\$171,601 loss to ECG's loss before income tax for the period between the date of acquisition and end of the reporting period.

Had the acquisition occurred on 1 January 2018, consolidated revenue and consolidated loss before income tax for the year ended 31 December 2018 would have been HK\$11,025,111 and HK\$1,141,645 respectively.

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****30 Business combination (Continued)****(b) Acquisition of Metcash Export Services Pty Limited**

On 25 February 2019, ECG acquired 85% interest in MES Group. MES Group is principally engaged in the provision of China export business in Australia. The acquisition allows ECG to create a one-stop offering for businesses intent on capturing the attention of China's growing consumer market.

In connection with the acquisition, a call option to purchase and a put option to sell the remaining 15% equity interest in MES Group were granted to ECG and Metcash respectively. ECG may exercise the call option at any time from the adjustment date (being five business days after the completion accounts is finally agreed) up to the date that is 18 months after the completion date, while Metcash may exercise the put option at any time on and from the date that is 18 months after the completion date.

Management has considered the terms of the aforementioned call-put option arrangement and concluded that such arrangement has effectively transferred the risks and rewards of the remaining 15% equity interest of MES Group to ECG. As such, ECG has not recognised any non-controlling interest in respect of the remaining 15% equity interest legally held by Metcash and accounted for MES Group as 100% owned as at 31 December 2019. The put option is treated as a liability for the acquisition of MES Group and was recognised as a financial liability in the statement of financial position at the present value of the amount payable by ECG when the option is exercised.

The goodwill arising from the acquisition related to the 100% equity interest. At the date of acquisition, MES Group was accounted for as a wholly-owned subsidiary of ECG and the results, assets and liabilities of MES Group were consolidated in the consolidated financial information of ECG.

The following tables summarises the consideration for the acquisition and the fair value of the assets acquired and liabilities assumed at the acquisition date based on the purchase price allocation:

	HK\$
Purchase consideration	
Cash paid	38,039,719
Deferred consideration	2,021,742
Put option liability	7,194,821
	<hr/>
Total purchase consideration	47,256,282 <hr/>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	2,416,885
Property, plant and equipment	41,644
Right-of-use assets	1,076,503
Trade and other receivable	11,141,067
Inventories	18,662,350
Intangible asset – supplier relationship	8,840,233
Other payable	(4,722,107)
Lease liabilities	(1,076,503)
Deferred tax assets	358,164
Deferred tax liabilities	(2,210,058)
	<hr/>
Total identifiable net assets	34,528,178
Goodwill	12,728,104
	<hr/> <hr/>
	47,256,282

eCARGO HOLDINGS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****30 Business combination (Continued)****(b) Acquisition of Metcash Export Services Pty Limited (Continued)**

Acquisition related costs of approximately HK\$837,976 have been charged to administrative expenses in the interim condensed consolidated statement of comprehensive income for the year ended 31 December 2019.

Inflow of cash to acquire business, net of cash	HK\$
Cash consideration paid in February 2019	(38,039,719)
Cash and cash equivalent of subsidiary acquired	2,416,885
Prepayment made in November 2018	6,960,375
Acquisition of a subsidiary, net of cash acquired	<u>(28,662,459)</u>

None of the goodwill recognised is expected to be deductible for income tax purposes.

The contingent consideration arrangement requires ECG to pay the former owners of MES Group 35% of the net profit after tax by annual instalment up to a maximum undiscounted amount of A\$3.5 million. This will be terminated upon the exercise of call-put option arrangement.

The potential undiscounted amount of all future payments that ECG could be required to make under this arrangement is between A\$0 and A\$3.5 million. The fair value of the contingent consideration arrangement has been estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 20.2%.

The fair value of trade and other receivables is HK\$11,141,067 and includes trade receivables with a fair value of HK\$7,483,852. No trade receivables due is expected to be uncollectible.

The acquired business contributed revenue of HK\$17,628,130 and loss before income tax of HK\$4,854,950 to ECG for the period between the date of acquisition and end of the reporting period.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 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	Non-Independent Non-executive Director
Ms. Jessica Rudd	Non-Independent Non-executive Director
Mr. Rupert Myer AO	Independent Non-executive Director
Mr. Dennis Lin	Independent Non-executive Director
Mr. Heath Zarin	Independent Non-executive Director
Mr. Yuming Zou	Independent Non-executive Director
JL Enterprises Holdings Limited	Shareholder of the Company, controlled by Mr. John Lau
CS China Logistics Limited	Shareholder of the Company, controlled by Mr. John Lau
Allport Cargo Services Limited	Shareholder of the Company, controlled by Mr. John Lau
Cargo Services Far East Limited	Controlled by Mr. John Lau
Cargo Tiancheng Technology Limited	Controlled by Mr. John Lau
CS Logistics Solutions Pty Limited	Controlled by Mr. John Lau
CN Logistics Limited	Controlled by Mr. John Lau
CN Logistics (Shanghai) Limited	Controlled by Mr. John Lau
Cargo Services (China) Limited	Controlled by Mr. John Lau
CS Packing (Hong Kong) Limited	Controlled by Mr. John Lau
EC-GO eCommerce Limited	Controlled by Mr. John Lau
深圳市一全通电子商务有限公司	Controlled by Mr. John Lau
深圳市看我商貿服務有限公司	Controlled by Mr. John Lau
深圳嘉宏互联有限公司	Controlled by Mr. John Lau
WWE Group Limited	Joint venture of an associate
MyMM (Shanghai) Commerce Limited	Subsidiary of joint venture of an associate
Asean Business Group Pty Ltd	Joint venture of an associate

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Related party transactions (Continued)

The following transactions were carried out with related parties:

	2019 HK\$	2018 HK\$
(a) Sales of services – note (i)		
Sales of software development services:		
- Cargo Services Far East Limited	2,400,000	2,400,000
Sales of courier services:		
- MyMM (Shanghai) Commerce Limited	-	379,908
Provision of marketing services:		
- WWE Group Limited	-	1,638,000
Provision of management services:		
- 深圳市一全通电子商务有限公司	-	62,345
- 深圳市看我商貿服務有限公司	-	20,471
	<u>2,400,000</u>	<u>4,500,724</u>
(b) Purchases of services – note (i)		
Purchase of outsourced labour services:		
- Cargo Services Far East Limited	600,000	600,000
Purchases of outsourced import, storage, and courier fulfillment services:		
- Allport Cargo Services Limited	68,912	103,207
- Cargo Service (China) Limited	5,321,699	3,739,995
- CN Logistics Limited	4,107,356	-
- CS China Logistics Limited	-	5,522,189
- EC-GO eCommerce Limited	644,945	1,384,976
	<u>10,742,912</u>	<u>11,350,367</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Related party transactions (Continued)

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

(c) Key Management compensation – note (ii)

Details of the Key Management compensation are disclosed in Note 9 to this consolidated financial statements.

	2019 HK\$	2018 HK\$
(d) Payment on behalf of ECG by related parties		
- Cargo Services Far East Limited	5,936	337,240
- Cargo Service (China) Limited	2,155,930	-
- 深圳市看我商貿服務有限公司	765,995	-
	<u>2,927,861</u>	<u>337,240</u>
(e) Disposal of property, plant and equipment		
- 深圳市看我商貿服務有限公司	-	2,319,336
- 深圳嘉宏互联有限公司	-	4,064
	<u>-</u>	<u>2,323,400</u>
(f) Balances with related parties – note (iii)		
	As at 31 December 2019 HK\$	As at 31 December 2018 HK\$
- Allport Cargo Services Limited	53,104	50,574
- Cargo Services Far East Limited	-	7,014,300
- MyMM (Shanghai) Commerce Limited	-	149,826
- Cargo Tiancheng Technology Limited	42,492	29,074
- 深圳市看我商貿服務有限公司	2,957,599	2,191,604
- 深圳市一全通电子商务有限公司	1,114	62,345
	<u>3,054,309</u>	<u>9,497,723</u>
- Cargo Services Far East Limited	(1,550,226)	-
- Cargo Services (China) Limited	(17,144,888)	(15,431,146)
- CN Logistics Limited	(2,089,087)	(1,473,448)
- CS China Logistics Limited	(678,188)	(689,866)
- EC-GO eCommerce Limited	(4,421,891)	(3,776,946)
	<u>(25,884,280)</u>	<u>(21,371,406)</u>

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Related party transactions (Continued)

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

(g) Borrowings from a shareholder

	Greater China HK\$	Jessica's Suitcase HK\$	Total
At 1 January 2018	44,412,560	-	44,412,560
Acquisition of a subsidiary (Note 30)	-	2,386,095	2,386,095
Loan advanced during the year	9,500,000	-	9,500,000
Interest charged	2,199,210	15,352	2,214,562
Currency translation differences	-	(92,868)	(92,868)
At 31 December 2018	56,111,770	2,308,579	58,420,349
At 1 January 2019	56,111,770	2,308,579	58,420,349
Loan advanced during the year for acquisition of a subsidiary (Note 30)	35,343,319	-	35,343,319
Interest paid	-	(123,068)	(123,068)
Repayment	(9,882,882)	(2,251,545)	(12,134,427)
Interest charged	4,031,310	88,865	4,120,175
Currency translation differences	-	(22,831)	(22,831)
At 31 December 2019	85,603,517	-	85,603,517

Notes:

- (i) These transactions are carried out on terms agreed with the related parties.
- (ii) Key Management are deemed to be the Directors who have responsibility for planning, directing, and controlling the activities of the Company.
- (iii) Balances with related parties arise mainly from sale and purchase transactions and are due one month after the date of sale or purchase. The receivable balances and payable balances bear no interest and are denominated in HK\$.

eCARGO HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 Statement of financial position and reserve movement of the Company

	Note	2019 HK\$	2018 HK\$
Assets			
Non-current assets			
Property, plant and equipment		-	36,741
Intangible assets		-	-
Investment in subsidiaries		64,121,262	98,808,967
Prepayment		-	6,960,375
		<u>64,121,262</u>	<u>105,806,083</u>
Current assets			
Amounts due from subsidiaries		-	232,490,445
Cash and cash equivalents		15,549	200
		<u>15,549</u>	<u>232,490,645</u>
Total assets		<u>64,136,811</u>	<u>338,296,728</u>
Equity			
Equity attributable to owners of the Company			
Share capital		427,820,968	427,820,968
Accumulated losses	a	(449,920,555)	(146,733,996)
Total equity		<u>(22,099,587)</u>	<u>281,086,972</u>
Liabilities			
Non-current liability			
Loan from a shareholder		85,603,517	56,111,770
Current liabilities			
Amounts due to subsidiaries		195,660	195,660
Other payables and accruals		437,221	902,326
		<u>632,881</u>	<u>1,097,986</u>
Total liabilities		<u>86,236,398</u>	<u>57,209,756</u>
Total equity and liabilities		<u>64,136,811</u>	<u>338,296,728</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 2018	(123,544,994)
Loss for the year	(23,189,002)
	<hr/>
As at 31 December 2018 and 1 January 2019	(146,733,996)
Loss for the year	(303,186,559)
	<hr/>
As at 31 December 2019	<u>(449,920,555)</u>