Annual Report 2018

Hi-Level Technology Holdings Limited

揚宇科技控股有限公司

Stock Code: 8113

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*This report, for which the directors (the “**Directors**”) of Hi-Level Technology Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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Corporate Information

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley *BBS JP* *(Chairman)*
Mr. Chang Wei Hua *(Chief Executive Officer)*
Mr. Wei Wei
Mr. Tong Sze Chung

Non-Executive Director

Mr. Wong Wai Tai

Independent Non-Executive Directors

Mr. Shea Chun Lok, Quadrant
Mr. Fung Cheuk Nang, Clement
Mr. Tsoi Chi Ho, Peter

AUDIT COMMITTEE

Mr. Shea Chun Lok, Quadrant *(Chairman)*
Mr. Fung Cheuk Nang, Clement
Mr. Tsoi Chi Ho, Peter

NOMINATION COMMITTEE

Mr. Shea Chun Lok, Quadrant *(Chairman)*
Mr. Fung Cheuk Nang, Clement
Mr. Tong Sze Chung

REMUNERATION COMMITTEE

Mr. Shea Chun Lok, Quadrant *(Chairman)*
Mr. Fung Cheuk Nang, Clement
Mr. Tong Sze Chung

COMPANY SECRETARY

Mr. Tong Sze Chung

COMPLIANCE OFFICER

Mr. Tong Sze Chung

REGISTERED OFFICE

190 Elgin Avenue, George Town
Grand Cayman, KY1–9007
Cayman Islands

PRINCIPAL OFFICE

Room 614, 6/F
Tower B, Hunghom Commercial Centre
37 Ma Tau Wai Road, Hung Hom
Kowloon, Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway, Hong Kong

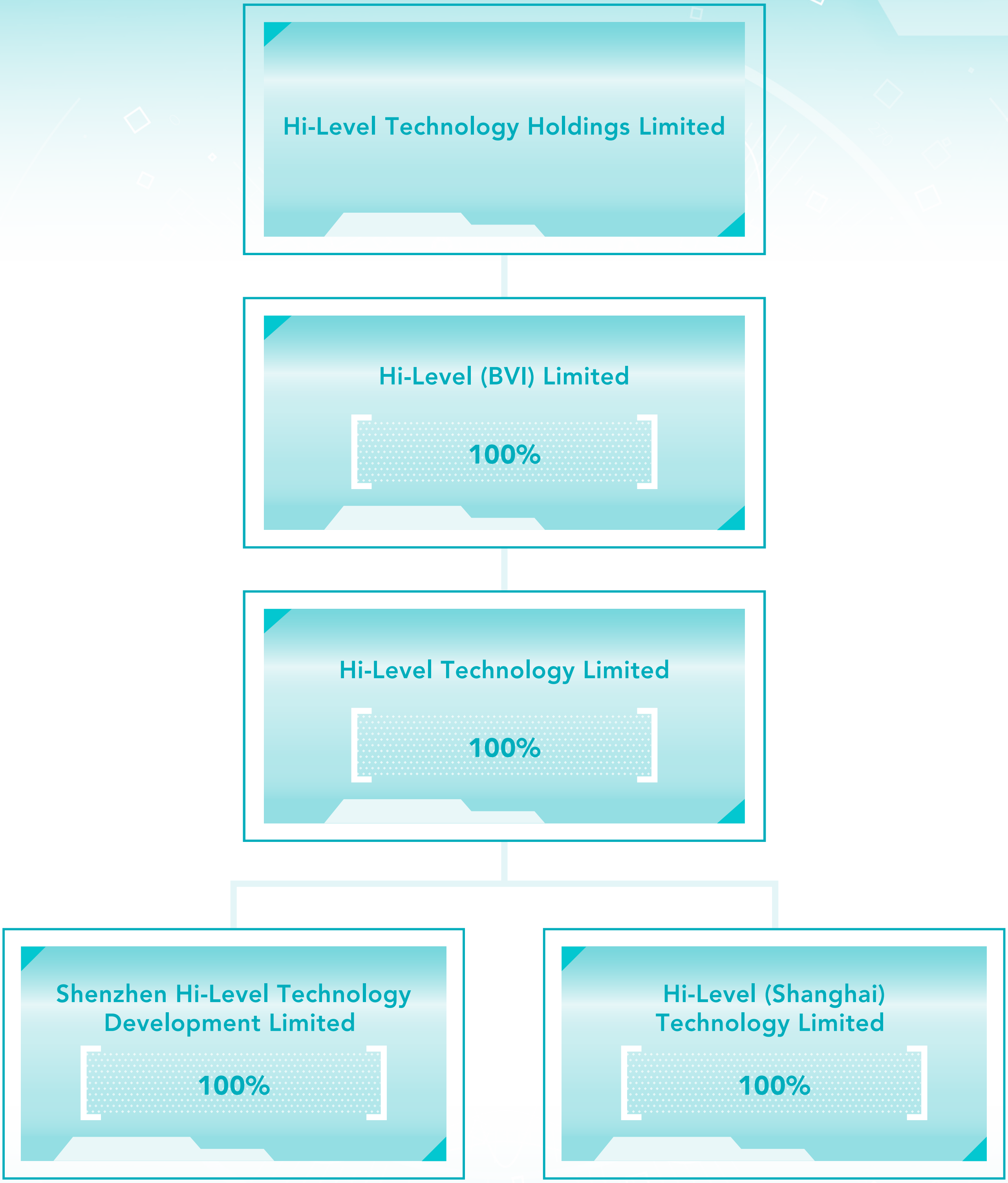
WEBSITE

http://www.hi-levelhk.com

STOCK CODE

The Stock Exchange of Hong Kong Limited: 8113

Group Structure



Financial Highlights

	2018 HK$'000	2017 HK$'000	Change
Revenue	**1,855,277**	2,254,447	-17.71%
Profit attributable to owners of the Company	**4,178**	37,212	-88.77%
Divided per share (HK cents)			
— Final proposed	**1.0**	2.0	
— Interim paid	**—**	1.0	
— Total	**1.0**	3.0	-66.67%

TO OUR SHAREHOLDERS

On behalf of the Board, I present the annual results of Hi-Level Technology Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

DIVIDENDS

The Board has recommended a final dividend of HK1.0 cent per share (2017: final dividend of HK2.0 cents per share) for the year ended 31 December 2018 subject to approval by the shareholders at the forthcoming annual general meeting. Total dividend for the year is HK1.0 cent per share (2017: HK3.0 cents per share).

BUSINESS REVIEW

The Group is primarily engaged in the sale of electronic components (mainly integrated circuit ("IC") and panels) for consumer electronics products such as mobile internet devices ("MID"), electronic learning aids ("ELA"), multi-media players (car infotainment system), smartphone panel modules, set-top boxes ("STB"), and video image devices together with the provision of IDH services to original brand manufacturers and original design manufacturers.

In 2018, we put more resources on provision of panels and panel modules to our MID, ELA smartphone customers so that the proportion of sales of IC solutions with IDH services was relatively lower than before. However, since third quarter of 2018, the trade war between China and US has weakened demand in the consumer electronic market. The price of panels and panel modules fall sharply and it negatively affected the Group's performance.

MID

MID segment comprises of tablet and smart home speaker products delivered the largest revenue of the Group. In 2018, the sales of tablets solutions decreased as compared with 2017 as the worldwide tablet market has declined since third quarter of 2018.

Smartphone Panel Module

Affected by the trade war and tariff dispute since third quarter of 2018, many smartphone manufacturers slowed down production. The demand for domestic TFT LCD screens was not satisfactory. In response to market changes, our Group shifted its sales focus to the repair market.

ELA

All our major ELA customers have launched new generation of ELA products with large display (10.1 inches) in 2018. However, due to the price competition and excess supply of domestic LCD panels, the market share of the Company in the ELA market dropped slightly.

Car Infotainment System

Sales of cars in China fell in 2018 because of the trade war between China and US. The demand of our car infotainment system solutions dropped.

OTT

Being benefited from the policy of the Belt and Road Initiative, our Group recorded satisfactory sales of our IC solutions to STB customers, especially in the Middle East and Central Asia. Moreover, high-definition broadcasts in South America have also been launched and boosted our revenue.

Video Image Device

Video image device products have always been a stable source of company revenue, hunting cam, sports cameras, aerial cameras and the newly launched visual doorbell solutions had brought satisfactory return to the Group.

OUTLOOK

Looking ahead, under the uncertain global business environment, the Company understands the tremendous challenges in 2019 and is implementing a balance strategy of business development and will increase the proportion of sales of IC solutions with IDH services. Our Group will actively develop new IC solutions to our target customers by working with new and existing suppliers. In first quarter of 2019, the Group has reduced panel inventory to safety level. However, due to slow business momentum in the first quarter, the Group's shipment level is not satisfactory and expects to record a decrease in the consolidated profit attributable to owners of the Company for the three months ending 31 March 2019 as compared for the three months ended 31 March 2018.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group achieved sales revenue of HK$1,855,277,000 decreased approximately 17.71% from HK$2,254,447,000 recorded in 2017.

Gross Profit

For the year ended 31 December 2018, gross profit was HK$55,258,000 decreased 43.08% from HK$97,087,000 recorded last year. Gross profit margin was 2.98%, decreased from 4.31% recorded in 2017.

Distribution Costs and Administrative Expenses

For the year ended 31 December 2018, the Group's operating costs were HK$44,830,000 (2017: HK$39,627,000), representing an increase of approximately 13.13% compared to the corresponding period in 2017. This was mainly attributable to increase of professional fee of approximately HK$2,000,000 related to the proposed transfer of listing and increase of operating expenses such as rental expenses and staff costs incurred in 2018.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company for the year ended 31 December 2018 was HK$4,178,000 decreased by approximately 88.77% as compared with HK$37,212,000 recorded in 2017. It is due to certain loss making shipments recorded in the fourth quarter of 2018 related to panels and panel modules in order to reduce the Company's inventory level. Moreover, the Group made stock provision for the year ended 31 December 2018 in relation to possible price drop of panels which the Group had bought from a supplier in 2018 for sale to customers in 2019.

APPRECIATION

On behalf of the Board of Directors, I would like to thank all our employees for their contribution and commitments. I also wish to extend my sincere gratitude to our shareholders, customers, suppliers and other business partners for their long-term supports and dedication.

Yim Yuk Lun, Stanley *BBS JP*
Chairman
Hong Kong, 26 March 2019

Liquidity and Financial Resources

The Group's principal sources of funds are cash generated from operations and bank borrowings. As of 31 December 2018, the Group's current ratio was 128% (31 December 2017: 139%). As of 31 December 2018, the Group had bank balances and cash of HK$115,082,000 (31 December 2017: HK$92,377,000) and bank borrowings of HK$304,656,000 (31 December 2017: HK$161,282,000). As of 31 December 2018, the Group's net gearing ratio was 136.4% (31 December 2017: 47.9%), which is calculated based on the Group's net debt (calculated as total bank borrowings minus bank balances and cash) of approximately HK$189,574,000 (31 December 2017: HK$68,905,000) and Group's total equity of approximately HK$139,013,000 (31 December 2017: HK$143,819,000).

The Group recorded debtors turnover of approximately 30 days for the year under review (2017: 25 days) based on the amount of the average of beginning and ending debtors divided by revenue for the respective year, multiplied by 365 days.

The Group recorded inventory turnover and payable turnover of 53 days and 33 days respectively for the year under review (2017: approximately 40 days and 40 days respectively) based on the amount of the average of beginning and ending inventory and creditors as at 31 December 2018, divided by cost of sales for the respective year and multiplied by 365 days.

Employee and Remuneration Policy

As 31 December 2018, the Group employed approximately 100 employees in the Greater China region. We ensure that their remuneration packages are comprehensive and competitive. Employees are remunerated with a fixed monthly income plus annual performance related bonuses.

Other than medical insurance and provident fund schemes, we also offer share options to our key employees as a long-term incentive who are identified as essential to our Group's operations and future development.

Dividend Policy

The Company has adopted a dividend policy, pursuant to which the Company gives priority to distributing dividend in cash and shares its profits with its shareholders. According to the dividend policy, subject to compliance with applicable rules and statutory regulations (including Cayman Islands laws) and the articles of association of the Company, the Company will pay dividend to the shareholders.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia:

- overall business conditions and strategies;
- our financial results;
- our capital requirements;
- our retained earnings and distributable reserves;
- taxation considerations; and
- any other factors our Board may deem relevant.

In addition to cash, dividends may be distributed in the form of shares. The dividend policy will continue to be reviewed from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

Executive Directors

Mr. Yim Yuk Lun, Stanley *BBS JP* **(嚴玉麟)**, aged 59, was appointed as a group Chairman and executive Director of the Company on 1 October 2015. He is responsible for the formulation of corporate strategies and the overall direction of the Group. Mr. Yim has received the "Outstanding Achievement Award" from the Hong Kong Electronics Industry Council (HKEIC) since April 2018. Mr. Yim is the founder, executive director, chairman and managing director of S.A.S. Dragon Holdings Limited (stock code: 1184, a company listed on the Main Board of the Stock Exchange in 1994) since 25 May 1993. Since 1 July 2013, Mr. Yim has been an independent director of Innolux Corporation (stock Code: 3481), a company listed on the Taiwan Stock Exchange.

Mr. Yim is currently the honorary vice chairman of the Hong Kong Electronic Industries Association, a member of Yan Chai Hospital Advisory Board, a member of the Chinese People's Political Consultative Conference Shanghai Committee, the chairman of the Tsuen Wan District Civic Education Committee and the vice chairman of Tsuen Wan District JPC Honorary President Council.

Mr. Chang Wei Hua (張偉華), age 54, was appointed as an executive Director and chief executive officer of the Company on 1 October 2015. He was appointed as general manager of Hi-Level Technology Limited in 2000 and was appointed as a managing director of Hi-Level Technology Limited in 2003. He graduated from Tungnan University in Taiwan with a Bachelor's degree in Electronics Engineering in June 1985.

Mr. Chang has over 15 years of experience in corporate management and business development. He has also over 25 years of extensive experience in sales, marketing and undertaking R & D projects within electronics field.

Mr. Wei Wei (魏衛), aged 49, was appointed as an executive Director of the Company on 1 October 2015. He is the founder of Hi-Level Technology Limited. He was appointed as Director and executive vice president of Hi-Level Technology Limited in 2000. He graduated from Huazhong University of Science and Technology in Wuhan, Hubei with a Bachelor's degree in Electronics Engineering in July 1991.

Mr. Wei is responsible for the operations of our Group in the PRC. He has over 20 years of management experience within the electronics field in sales, marketing and undertaking R & D projects.

Mr. Tong Sze Chung (唐思聰), aged 50, was appointed as an executive Director on 1 October 2015 and he is also a financial controller, company secretary and compliance officer of the Company. He is a member of the Remuneration Committee and Nomination Committee. Mr. Tong joined Hi-Level Technology Limited as the financial controller on 1 January 2013. He obtained a Bachelor's degree of Business Administration from the Open University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Tong has been appointed as an independent non-executive director of Kong Shum Union Property Management (Holding) Limited (stock code: 8181), a company listed on the GEM of the Stock Exchange, from September 2013 to February 2015.

Mr. Tong is responsible for the accounting and financial management of Hi-Level group's operations. He has over 15 years' experience in accounting and financial management.

Non-Executive Director

Mr. Wong Wai Tai (黃維泰), aged 47, was appointed as a non-executive Director of the Company on 1 December 2016. He holds a Bachelor's degree of Business Administration from Hong Kong Baptist University and a Master of Laws from Renmin University of China. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. He has over twenty years experience in accounting, auditing, taxation and financial management.

Mr. Wong has been appointed as executive director of S.A.S. Dragon Holdings Limited (stock code: 1184) on 1 December 2016 which is listed on the Main Board of the Stock Exchange of Hong Kong Limited and a substantial shareholder of the Company.

Independent Non-Executive Directors

Mr. Shea Chun Lok, Quadrant (佘俊樂) (former name, Shea Chi Lap, Quadrant), aged 52, was appointed as an independent non-executive Director of the Company on 21 December 2015. He is a chairman of our Audit Committee, Nomination Committee and Remuneration Committee. Mr. Shea graduated from Monash University of Australia with a Bachelor's degree in Business and later completed a postgraduate program of Public Finance (Taxation) and obtained a Master's degree in Economics from Jinan University, China and a Master of Laws degree from Renmin University of China. He is also a fellow member of CPA Australia, a member of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong, The Chartered Institute of Management Accountants of the United Kingdom and Institute of Singapore Chartered Accountants and a Chartered Global Management Accountant. Mr. Shea is a Certified Tax Adviser of Hong Kong and a China Tax Committee member of The Taxation Institute of Hong Kong and has obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers Serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau.

Mr. Shea has substantial experience in accounting and finance in listed companies and worked as a qualified accountant and company secretary in various companies listed on the Main Board of the Stock Exchange over the years. He was the group financial controller of S.A.S. Dragon Holdings Limited (stock code: 1184) from 1999 to 2005, a company listed on the Main Board of the Stock Exchange. Mr. Shea has been appointed as the chief financial officer and company secretary of Asia Allied Infrastructure Holdings Limited (stock code: 711) ("AAI"), a company listed on the Main Board of the Stock Exchange, since 2015. He has further been appointed as an executive director of AAI since July 2017 and is also currently a member of the management committee and executive committee of the board of AAI. Mr. Shea has also been appointed as an independent non-executive director of Beijing Enterprises Water Group Limited (stock code: 371) since 2002, a company listed on the Main Board of the Stock Exchange, and is also the chairman of the audit committee of the company.

Mr. Fung Cheuk Nang, Clement (馮卓能), aged 42, was appointed as an independent non-executive Director of the Company on 21 December 2015. He is a member of Audit Committee, Remuneration Committee and Nomination Committee. He has extensive management experience in development and manufacturing of consumer products.

Mr. Fung is also a director of Smarthome Technology Limited and Smarthome Products Limited, both of which are privately-owned consumer electronics companies in Hong Kong. He was an executive director of New Chinese Medicine Holdings Limited (stock code: 8085), a listed company of GEM Board of the Stock Exchange, from July 2005 to October 2007, and also served as a non-executive director of China Financial International Investments Limited (stock code: 0721), a listed company of Main Board of the Stock Exchange, from February 2008 to May 2011.

Mr. Tsoi Chi Ho, Peter (蔡子豪), aged 32, was appointed as an independent non-executive Director of the Company on 21 December 2015. He is a member of the Audit Committee. Mr. Tsoi graduated from the York University of Canada with a Bachelor's degree in Business Administration Studies in June 2009 and obtained his Master's degree in E-Commerce from the Hong Kong Polytechnic University in November 2010.

Mr. Tsoi has been the marketing director of an international trading company in South Africa since 2010 and is mainly responsible for coordinating sales and sourcing electronic products from China to South Africa. He has substantial experience in marketing and trading of electronic products as well as extensive knowledge on the electronic industry of South Africa.

SENIOR MANAGEMENT

Mr. Li Xiao Ming (李曉鳴), aged 54, was appointed as director of Shenzhen Hi-Level Technology Development Limited in 2003 and Video Innovation Tech Limited in 2011, both of which are subsidiaries of Hi-Level Technology Limited. He joined Hi-Level Technology Limited in May 2002 and is currently as the marketing director. He graduated from Chongqing University in 1984 with a Bachelor's degree in Electronics Engineering. He has more than 30 years of management experience within the electronics field in product development. Mr. Li Xiao Ming is also an indirect shareholder of the Company.

Mr. Huang Yung Hsing (黃永興), aged 53, was appointed as a supervisor of Hi-Level (Shanghai) Technology Limited in August 2007 and was appointed as a director of Hi-Level (Shanghai) Technology Limited in December 2015. He joined Hi-Level Technology Limited as the engineering director in 2002. He graduated from Tungnan University in 1985 with a Bachelor's degree in Electronics Engineering. He has more than 20 years of experience within the electronics fields of engineering and R & D projects development. Mr. Huang Yung Hsing is also a shareholder of the Company.

Mr. Huang Huang Chi (黃煌旗), aged 46, joined the Company in 2005 and is currently the sales director of Shenzhen Hi-Level Technology Development Limited. He graduated from Hwa Hsia University of Technology in 1994 and has 15 years of management experience in sales and marketing. Mr. Huang Huang Chi is also an indirect shareholder of the Company.

Corporate Governance Report

The Company recognizes the importance of corporate transparency and accountability. The Company is committed in achieving a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

The Company's corporate governance practices are based on the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules. The Company has listed on the GEM since 7 January 2016 (the "Listing Date"). The Company had complied with the applicable code provisions (the "Code Provisions") set out in the CG Code throughout the year ended 31 December 2018, except for the deviations from the CG Code provisions A.1.8. which is explained in the relevant paragraph below.

BOARD OF DIRECTORS

The Board is responsible for the formulation of corporate strategies, the setting of appropriate strategic policies and internal control and the oversight of the operation and financial performance of the Group. The Board are individually and collectively accountable to the shareholders of the Company (the "Shareholders") for the success and sustainable development of the Group.

Day-to-day management of the Group is delegated to the executive directors or senior management. Executive directors and senior management meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

BOARD COMPOSITION

The Board comprises eight Directors and their respective roles are set out as follows:

Executive Directors:

Mr. Yim Yuk Lun, Stanley *BBS JP* *(Chairman)*
Mr. Chang Wei Hua *(Chief Executive Officer)*
Mr. Wei Wei
Mr. Tong Sze Chung

Non-executive Director:

Mr. Wong Wai Tai

Independent non-executive Directors:

Mr. Shea Chun Lok, Quadrant
Mr. Fung Cheuk Nang, Clement
Mr. Tsoi Chi Ho, Peter

There are no financial, business, family or other material/relevant relationships among the Directors.

Details of remuneration paid to members of key management (including all Directors and senior management as disclosed in section headed "Directors and Senior Management Profiles" of this report) for the year ended 31 December 2018 fell within the following bands:

	Number of individual 2018
Below HK$1,000,000	9
HK$1,000,001 to HK$1,500,000	2
Exceeding HK$1,500,000	N/A

Under the CG Code provision A.1.8, an issuer should arrange appropriate insurance cover in respect of legal action against its Directors. With regular and timely communications among the Directors and the management of the Group, the management of the Group believes that all potential claims and legal actions against the Directors can be handled effectively and the possibility of actual litigation against the Directors is low. The Company will consider to make such an arrangement as and when it thinks necessary.

Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are separate and are not performed by the same individual. Mr. Yim Yuk Lun, Stanley *BBS JP* holds the position of the Chairman of the Group and is responsible for the formulation of corporate strategies and the overall direction of the Group.

Mr. Chang Wei Hua holds the position of the Chief Executive Officer of the Group and is responsible for day-to-day management of the Group's business.

Director's Appointments, Re-election and Removal

Mr. Yim Yuk Lun, Stanley *BBS JP*, the Chairman of the Company and Mr. Wong Wai Tai, the non-executive Director of the Company have entered into a letter of appointment commencing from 1 October 2018 and 1 December 2018 respectively for an initial term of one year, during which either party may terminate the service agreement by giving the other not less than three months written notice.

All other executive Directors have entered into a service contract with the Company commencing from 1 October 2018 for an initial term of one year, during which either party may terminate the service agreement by giving the other not less than three months written notice.

Each of the independent non-executive Directors has entered into a letter of appointment for a term of one year commencing from 21 December 2018 and termination by not less than three months' notice in writing served by the independent non-executive Director or the Company.

All the Directors, including non-executive and independent non-executive Directors, are subject to retirement by rotation and eligible for re-election in accordance with the Company's articles of association. At each annual general meeting, not less than one third of the Directors then in office shall retire and every Director is subject to retirement by rotation at least once every three years.

Confirmation of Independence

Each of the independent non-executive Directors had made a confirmation of independence by reference to Rule 5.09 of the GEM Listing Rules and the Board is satisfied that all the independent non-executive Directors were independent and met the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

Number of Meetings and Directors' Attendance

The Board meets regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as, the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

Nine Board meetings were held during the Year. The individual attendance record of the Board meetings and annual general meeting are set out as follows:

	Number of Board Meetings attended/eligible to attend	**Annual General Meeting**
Executive Directors:		
Mr. Yim Yuk Lun, Stanley *BBS JP*	9/9	1/1
Mr. Chang Wei Hua	9/9	1/1
Mr. Wei Wei	8/9	1/1
Mr. Tong Sze Chung	9/9	1/1
Non-executive Director:		
Mr. Wong Wai Tai	9/9	1/1
Independent non-executive Directors:		
Mr. Shea Chun Lok, Quadrant	9/9	1/1
Mr. Fung Cheuk Nang, Clement	9/9	1/1
Mr. Tsoi Chi Ho, Peter	9/9	1/1

BOARD COMMITTEES

Audit committee

The Board established the audit committee on 23 December 2015 with written terms of reference which are of no less exacting terms than those set out in the CG Code.

The audit committee comprises three independent non-executive Directors, namely Mr. Shea Chun Lok, Quadrant, Mr. Fung Cheuk Nang, Clement and Mr. Tsoi Chi Ho, Peter. Mr. Shea Chun Lok, Quadrant is the chairman of the audit committee.

The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control system of the Company, the effectiveness of the Group's internal audit function, nominate and monitor external auditors, meet with external auditor regularly and provide advice and comments to the Board.

The audit committee had reviewed the Group's consolidated financial statements for the Year.

The audit committee held 4 meetings to review unaudited quarter results, interim results and annual results and reports during the year ended 31 December 2018, financial reporting and compliance procedures and effectiveness of risk management systems and internal controls of the Group. The attendance records of individual committee members are set out below:

Directors	Number of Meetings attended/eligible to attend
Mr. Shea Chun Lok, Quadrant	4/4
Mr. Fung Cheuk Nang, Clement	4/4
Mr. Tsoi Chi Ho, Peter	4/4

Remuneration committee

The Board established the remuneration committee on 23 December 2015 with written terms of reference which are of no less exacting terms than those set out in the CG Code.

The remuneration committee comprises one executive Director namely Mr. Tong Sze Chung and two independent non-executive Directors, namely Mr. Shea Chun Lok, Quadrant and Mr. Fung Cheuk Nang, Clement. Mr. Shea Chun Lok, Quadrant is the chairman of the remuneration committee.

The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review and recommend the management's remuneration proposals by reference to the corporate goals and objectives.

The remuneration committee held 1 meeting during the year to review and discuss with the management of the Company the remuneration policy and structure of the Directors and senior management of the Group.

Directors	Number of Meetings attended/eligible to attend
Mr. Shea Chun Lok, Quadrant	1/1
Mr. Fung Cheuk Nang, Clement	1/1
Mr. Tong Sze Chung	1/1

Nomination committee

The Board established the nomination committee on 23 December 2015 with written terms of reference which are of no less exacting terms than those set out in the CG Code.

The nomination committee comprises one executive Director namely Mr. Tong Sze Chung and two independent non-executive Directors, namely Mr. Shea Chun Lok, Quadrant and Mr. Fung Cheuk Nang, Clement. Mr. Shea Chun Lok, Quadrant is the chairman of the nomination committee.

The primary function of the nomination committee is to make recommendations to the Board regarding appointment of Directors and candidates to fill vacancies on the Board.

The Board adopted the board diversity policy in accordance with the requirement as set out in the CG Code. The Board recognizes the benefits of having a diverse Board and considers a number of factors which include but are not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service as to its composition. The nomination committee regularly monitors and reviews the implementation of the Board diversity policy.

The nomination committee held 1 meeting during the year to recommend the re-appointment of the Directors standing for re-election at the annual general meeting, to review and discuss the composition of the Board of the Company, to identify and nominate candidates for appointment to the Board such that it has the relevant skills, knowledge and experience and to assess the independency of independent non-executive Directors.

The attendance records of individual committee members are set out below:

Directors	Number of Meetings attended/eligible to attend
Mr. Shea Chun Lok, Quadrant	1/1
Mr. Fung Cheuk Nang, Clement	1/1
Mr. Tong Sze Chung	1/1

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

— Reputation for integrity

— Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy

— Commitment in respect of available time and relevant interest

— The number of existing directorships and other commitments that may demand the attention of the candidate

— Requirement for the Board to have independent non-executive directors in accordance with the GEM Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules

— Diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

— Such other perspectives appropriate to the Company's business

BOARD DIVERSITY POLICY

The Company has a Board Diversity Policy whereby it recognizes and embraces the benefits of a diversity of Board members. It endeavors to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

During the Year and as at the date of this annual report, the Board comprises eight Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The following tables further illustrate the diversity of the Board members as of the date of this annual report:

Name of Director	Age Group 30–39	40 to 49	50 to 59
Mr. Yim Yuk Lun, Stanley *BBS JP*			✓
Mr. Chang Wei Hua			✓
Mr. Wei Wei		✓	
Mr. Tong Sze Chung			✓
Mr. Wong Wai Tai		✓	
Mr. Shea Chun Lok, Quadrant			✓
Mr. Fung Cheuk Nang, Clement		✓	
Mr. Tsoi Chi Ho, Peter	✓		

Name of Director	Electronics	Accounting and Finance
Mr. Yim Yuk Lun, Stanley *BBS JP*	✓	
Mr. Chang Wei Hua	✓	
Mr. Wei Wei	✓	
Mr. Tong Sze Chung		✓
Mr. Wong Wai Tai		✓
Mr. Shea Chun Lok, Quadrant		✓
Mr. Fung Cheuk Nang, Clement	✓	
Mr. Tsoi Chi Ho, Peter	✓	

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

1. at least one-third of the members of the Board shall be independent non-executive Directors; and

2. at least one of the members of the Board shall have obtained accounting or other professional qualifications.

The Board has achieved the measurable objectives in the board diversity policy.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions specified in Code Provision D.3.1 of the CG Code, which include reviewing the Company's corporate governance policies and practices, the continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements (including the GEM Listing Rules) and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Each Director received induction on the first occasion of his appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is sufficiently aware of his/her responsibilities and obligations under the GEM Listing Rules and other relevant legal and regulatory requirements.

During the year, all Directors participated in the continuous professional developments regarding the duties and responsibility of the Directors under the relevant legal and regulatory requirement which included reading materials in relation to legal or regulatory update and/or attending training course.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct (the "Code of Conduct") regarding securities transactions by the Directors. All Directors, after specific enquiries by the Company, confirmed to the Company their compliance with the Code of Conduct throughout the year under review.

AUDITOR'S REMUNERATION

The remuneration paid/payable to the auditor of the Company during the year is set out as follows:

Services rendered in 2018	**HK$'000**
Statutory audit services	1,274
Non-audit services	
— non-audit and tax related service	20

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors acknowledge their responsibility to prepare financial statements for each quarter, half and full financial year which give a true and fair view of the state of affairs of the Group.

COMPANY SECRETARY AND COMPLIANCE OFFICER

Mr. Tong Sze Chung is an Executive Director, a financial controller, company secretary and the compliance officer of the Company. His biographical details and professional qualifications are set out on page 9 of this report.

Mr. Tong has complied with all requirements relating to qualifications, experiences and training under Rule 5.14 of the GEM Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for maintaining good and effective risk management and internal controls of the Group.

During the Year, the Board, with the assistance of the audit committee, conducted a review of the effectiveness and adequacy of the Group's risk management and internal control systems, covering financial, operational, compliance control and risk management functions. To assist the audit committee to fulfill its responsibilities, the senior management has to identify, update and report the key risk areas which covered all aspects of corporate strategies, operation and finance to the Board.

The Group risk management and internal control system includes the setting up of a management structure with limits of authority and is designed to help the Group achieve its business objectives, protects its assets against unauthorized use or disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and ensures compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate all risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

Risk management report and internal control report are submitted to the audit committee and the Board at least once a year. After reviewing the Group's risk management and internal control systems, the Board considers that the systems are effective and adequate for the Group as a whole. The Board further considers that (i) there was no material issue relating to the Group's risk management and internal controls, including financial, operational and compliance controls and risk management functions of the Group; and (ii) that there were adequate staff with appropriate and adequate qualifications and experience, resources for accounting, internal audit and financial reporting functions, and adequate training programmes had been provided during the year under review.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group complies with requirements of Securities and Futures Ordinance ("SFO") and the GEM Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING AND PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

According to article 10.9 of the Company's articles of association, one or more Shareholders (the "Requisitionists"), holding not less than 10% of the total voting rights of the Company can convene an extraordinary general meeting (the "EGM") by depositing a requisition (the "Written Requisition") in writing to the Directors or the Company Secretary for the purpose of requiring the convening of the EGM. The Written Requisition must state the purposes of the meeting and not more than 1,000 words and must be signed by the Requisitionists. The Written Requisition shall be deposited to the Company's principal place of business at Room 614, 6/F., Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong and marked for the attention of the Board of Directors/ Company Secretary. The Written Requisition will be verified with the Company's Hong Kong Share Registrar in Hong Kong and upon their confirmation that the Written Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the Shareholders.

If the Board does not within 21 days from the date of deposit of the Written Requisition proceed duly to convene the meeting to be held, the Requisitionists may convene the general meeting in the same manner within three months after the end of that period and all reasonable expenses incurred by the Requisitionists as a result of the failure of the Board in convening the meeting shall be reimbursed to them by the Company.

Shareholders may also use this same method to put forward proposals for the general meeting.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with its shareholders, the Company provides extensive information in its annual report and press release. Also the Group disseminates information relating to its business electronically through its website at http://www.hi-levelhk.com. The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communications between the Board and the Shareholders.

All Directors and senior management will make an effort to attend. All Shareholders will be given at least 20 clear business days' notice of the annual general meeting and are encouraged to attend the annual general meeting and other Shareholders' meetings.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of Hi-Level Technology Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the activities of its principal subsidiaries are set out in Note 31 to the consolidated financial statements.

RESULT AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 36.

The directors recommend the payment of a final dividend of HK1.0 cent per share to the shareholders on the register of member on 21 June 2019 (2017: HK2.0 cents per share). Dividend warrants will be dispatched 5 July 2019.

BUSINESS REVIEW

Business review of the Group for the year ended 31 December 2018 has been stated in the Chairman's Statement on pages 5 to 6 of this report.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 40% and 66%, respectively, of the Group's total purchases for the year.

The aggregate sales attributable to the Group's largest customer and five largest customers taken together accounted for 5% and 21%, respectively, of the Group's total sales for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 23 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2018, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, as is represented by the retained profits of HK$1,906,000 disclosed in note 30 to the consolidated financial statements.

ANALYSIS OF KEY FINANCIAL PERFORMANCE INDICATORS

For details of the key financial performance indicators to the performance the Group's business, please refer to "Management Discussion and Analysis" on pages 7 to 8 of this report.

ENVIRONMENTAL PROTECTION

The Group is committed to acting in an environmentally responsible manner. Using LED lamps for offices and warehouse premises, environmentally friendly paper to print annual, interim and quarterly reports, recycling and use of eco-friendly stationery, plus a series of measures to save paper and energy, resulted in more efficient use of resources, as well as reduction of waste.

COMPLIANCE WITH REGULATIONS

There was no material breach of or non-compliance with the applicable laws and regulations such as the Hong Kong Companies Ordinance (Cap. 622), Listing Rules, and other applicable local laws and regulations in various jurisdictions.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group.

Relationship is the fundamentals of business. The Group fully understand this principal and thus maintain close relationship with the customers to fulfill their immediate and long-term need.

The Group encompasses working relationships with suppliers to meet our customer's needs in an effective and efficient manner. The Group work closely and well-communicated to suppliers before the commencement of a project.

PRINCIPAL RISK AND UNCERTAINTIES FACING THE COMPANY

The following lists out the principal risks and uncertainties facing the company in achieving business objectives and the Group's approach to tackle them:

Impact of local and international regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Foreign Exchange Risk Management

The Group derives its turnover, make purchases and incurs expenses denominated mainly in Renminbi, US$ and HK$. Currently, the Group has not entered into agreements or purchases instruments to hedge the Group's exchange rate risks. The management considers that the foreign exchange risk with respect to US$ and Renminbi are not significant as HK$ is pegged to US$ and transactions denominated in US$ and Renminbi are mainly carried out by entities with the same functional currency. The exchange rate of Renminbi is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group manages foreign currency risk by closely monitoring the movement of the foreign currency rates.

DIRECTORS

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

Executive Directors

Yim Yuk Lun, Stanley *BBS JP*
Chang Wei Hua
Wei Wei
Tong Sze Chung

Non-Executive Director

Wong Wai Tai

Independent Non-Executive Directors

Shea Chun Lok, Quadrant
Fung Cheuk Nang, Clement
Tsoi Chi Ho, Peter

Pursuant to the Articles 14.4 to 14.6 of the Company's Articles of Association, Mr. Yim Yuk Lun, Stanley *BBS JP*, Mr. Wong Wai Tai and Mr. Tsoi Chi Ho, Peter shall retire by rotation at the annual general meeting. All the retiring Directors, being eligible, will offer themselves for re-election at the annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Yim Yuk Lun, Stanley *BBS JP*, the Chairman of the Company and Mr. Wong Wai Tai, the non-executive Director of the Company have entered into a letter of appointment commencing from 1 October 2018 and 1 December 2018 respectively for an initial term of one year, during which either party may terminate the service agreement by giving the other not less than three months written notice.

All other executive Directors have entered into a service contract with the Company commencing from 1 October 2018 for an initial term of one year, during which either party may terminate the service agreement by giving the other not less than three months written notice.

Each of the independent non-executive Directors has entered into a letter of appointment for a term of one year commencing from 21 December 2018 and termination by not less than three months' notice in writing served by the independent non-executive Director or the Company.

Saved as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Long positions in shares

Ordinary shares of HK$0.01 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Yim Yuk Lun, Stanley *BBS JP* *(Note 1)*	Beneficial owner and interest in controlled corporation	244,235,861	37.56
Chang Wei Hua *(Note 2)*	Interest in controlled corporation	76,847,000	11.82
Wei Wei *(Note 3)*	Interest in controlled corporation	76,847,000	11.82
Wong Wai Tai	Beneficial owner	2,000,000	0.31
Fung Cheuk Nang, Clement	Beneficial owner	600,000	0.09
Tsoi Chi Ho, Peter	Beneficial owner	600,000	0.09
Tong Sze Chung	Beneficial owner	300,144	0.05

Notes:

1. Mr. Yim Yuk Lun, Stanley *BBS JP* beneficially owns 32,272,861 Shares and is the controlling shareholder of S.A.S. Dragon Holdings Limited ("S.A.S. Dragon"); he is therefore under the SFO deemed to be interested in 211,963,000 Shares held by S.A.S. Investment Company Limited ("S.A.S. Investment") which is a wholly-owned subsidiary of S.A.S. Dragon.

2. Mr. Chang Wei Hua beneficially owns 600,000 shares and 76,247,000 shares are held by Vertex Value Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Mr. Chang Wei Hua.

3. Mr. Wei Wei beneficially owns 600,000 shares and 76,247,000 shares are held by Victory Echo Holdings Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Mr. Wei Wei.

SHARE OPTIONS

(a) Pre-IPO share option scheme of the Company

Pursuant to the written resolutions of the sole shareholder of the Company passed on 11 October 2015 (the "Resolutions"), the Company has adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme").

Under which, share options are granted to directors (including non-executive directors) and employees to the Group and the connected persons of the Company (the "Grantees"). The Pre-IPO Share Option Scheme was terminated on 7 January 2016. Upon termination of the Pre-IPO Share Option Scheme, no further share option was granted but in all other respects the provisions of the Pre-IPO Share Option Scheme is remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme, and share options which were granted prior to such termination are continued to be valid and exercisable in accordance with the provisions of the Pre-IPO Share Option Scheme and their terms of issue.

As at 11 October 2015, options to subscribe for an aggregate of 60,000,000 shares of the Company, representing 10% of the issued share capital of the Company immediately following the completion of the Placing (as defined in the Prospectus), at an exercise price of HK$0.31 per share of the Company, have been granted pursuant to the Pre-IPO Share Option Scheme. Each of the Grantees has paid HK$1 to the Company on acceptance of the offer for the grant of option. Pursuant to the Resolutions Grantees may exercise 50% of such options granted for two years commencing from the first anniversary of 7 January 2016 ("the Listing Date") of the Company and the remaining 50% for one year commencing from the second anniversary of the Listing Date.

Grantees	Vesting proportion	Vesting date	Exercisable period	Exercise price per share	Options granted as at 11.10.2015	Options lapsed as at 31.12.2018	Options exercised during 2017	Options as at 31.12.2017	Options exercised during the period	Options as at 31.12.2018
Directors	50%	6.1.2017	7.1.2017 to 6.1.2019	HK$0.31	2,100,000	(300,000)	(1,500,000)	300,000	—	300,000
Directors	50%	6.1.2018	7.1.2018 to 6.1.2019	HK$0.31	2,100,000	(300,000)	—	1,800,000	(1,200,000)	600,000
Others										
Employees and connected persons	50%	6.1.2017	7.1.2017 to 6.1.2019	HK$0.31	27,900,000	(1,455,000)	(25,160,000)	1,285,000	(335,000)	950,000
Employees and connected persons	50%	6.1.2018	7.1.2018 to 6.1.2019	HK$0.31	27,900,000	(1,825,000)	—	26,075,000	(22,075,000)	4,000,000
Total					60,000,000	(3,880,000)	(26,660,000)	29,460,000	(23,610,000)	5,850,000

(b) Share option scheme of the Company

Pursuant to a written resolution of the shareholders of the Company dated 23 December 2015, the share option scheme (the "2015 Scheme") was passed on 23 December 2015, which became effective on the Listing Date. The 2015 Scheme was established for the purpose of providing incentives or rewards for the contribution of directors of the Company and the Eligible Persons, and will expire on 22 December 2025. Under the 2015 Scheme, the directors of the Company may at their discretion grant options to the Eligible Persons.

No options was granted by the Company under the share option scheme during the year. As at the date of this report, save as otherwise approved by shareholders of the Company, the maximum number of shares available for issue under options which may be granted is 60,000,000, representing approximately 9.2% of the number of issued shares of the Company.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme as disclosed above, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as disclosed above, at no time during the year was the Company, any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, the following persons (not being the directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in shares

Ordinary shares of HK$0.01 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of share capital of the Company
S.A.S. Dragon	Interest in controlled corporation	211,963,000	32.6
S.A.S. Investment	Beneficial owner	211,963,000	32.6

Notes:

S.A.S. Dragon is deemed to be interested in the 211,963,000 Shares held by S.A.S. Investment, a wholly owned subsidiary of S.A.S. Dragon.

PERMITTED INDEMNITY PROVISION

At no time during the year and up to the date of this report was any permitted indemnity provision being in force for the benefit of any of the directors of the Company.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTEREST IN A TRANSACTION, ARRANGEMENT AND CONTRACTS OF SIGNIFICANCE

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

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to the date of this report.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Board of Directors on the basis of their merit, qualifications, competence and job nature.

The emoluments of the directors of the Company are recommended by the Remuneration Committee and are decided by the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to eligible employees, details of the scheme is set out in note 28 to the consolidated financial statements.

INTERESTS OF THE COMPLIANCE ADVISERS

As notified by Alliance Capital Partners Limited ("Alliance"), compliance adviser of the Company, Alliance had 1,400,000 shares of the Company as at 31 December 2018.

Save as disclosed above, neither Alliance nor any of its close associates and none of the directors or employees of Alliance had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 31 December 2018.

Pursuant to the agreement dated 29 December 2015 entered into between Alliance and the Company, Alliance received and will receive fees for acting as our Company's compliance adviser.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, up to the date of this report, there is sufficient public float of 25% of the Company's issued shares as required under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

TAX RELIEF

The Company is not aware of any relief on taxation available to the shareholders by reason of their holdings of the shares. If the shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the shares, they are advised to consult their professional advisers.

CONTINUING CONNECTED TRANSACTIONS

Lease of office in Hong Kong

On 1 October 2015, Hi-Level Technology Limited, a wholly-owned subsidiary of the Company ("Hi-Level Hong Kong") and S.A.S. Investment, a wholly-owned subsidiary of S.A.S. Dragon entered into a lease agreement pursuant to which S.A.S. Investment (as landlord) agreed to lease the Hong Kong Office with a total gross floor area of approximately 2,188 square feet to Hi-Level Hong Kong (as tenant), for a period of two years commencing from 1 October 2015 and expiring on 30 September 2017 at a total annual rent of HK$394,000, with a one-year renewal option at the prevailing market rent at the time of renewal to 30 September 2018 automatically. The renewal agreement has been signed for a period of two years commencing from 1 October 2018 and expiring on 30 September 2020 at a total annual rent of HK$420,000, with a one-year renewal option at the prevailing market rent at the time of renewal to 30 September 2021 automatically.

Lease of office in Shanghai, the PRC

On 1 October 2015, Hi-Level (Shanghai) Technology Limited, a wholly-owned subsidiary of the Company entered into a lease agreement with each of SPT Technology Limited and S.A.S Electronic Technology (Shenzhen) Company Limited, both a wholly-owned subsidiary of S.A.S. Dragon pursuant to which SPT Technology Limited and S.A.S Electronic Technology (Shenzhen) Company Limited (as landlords) agreed to lease the Shanghai Office and Shanghai Carpark space with a total gross floor area of approximately 64 sq.m. to Hi-Level (Shanghai) Technology Limited (as tenant), for a period of two years commencing from 1 October 2015 and expiring on 30 September 2017 (with a preferential right of renewal upon the expiry of the lease) at a total annual rent of RMB96,000 and RMB10,800 respectively. The renewal agreements have been signed for a period of two years commencing from 1 October 2017 and expiring on 30 September 2019 at a total annual rent of RMB96,000 and RMB10,800 respectively.

Lease of warehouse in Guangdong province, the PRC

On 15 April 2017, Shenzhen Hi-Level Technology Development Limited ("Hi-Level Shenzhen"), a wholly-owned subsidiary of the Company entered into a lease agreement with 東莞時鴻顯示器有限公司, a wholly-owned subsidiary of S.A.S. Dragon pursuant to which 東莞時鴻顯示器有限公司 (as landlord) agreed to lease the Fenggang Town warehouse, Dongguang province with a total gross floor area of approximately 103 sq.m. to Hi-Level Shenzhen (as tenant), for a period of 30 months commencing from 15 April 2017 and expiring on 15 October 2019 (with a preferential right of renewal upon the expiry of the lease) at a total annual rent of RMB20,400.

The above continuing connected transactions fall under the de minimis provision set forth in Rule 20.74(1) (c) of the GEM Listing Rules and are therefore fully exempt from the reporting, announcement and independent shareholders' approval requirements.

USE OF PROCEEDS FROM THE LISTING AND CHANGE IN USE OF PROCEEDS

On 7 January 2016, the Company has offered 150,000,000 shares for subscription by way of placing and raised net proceeds of approximately HK$30 million.

The change of use of the net proceeds was approved by the Board of Directors of the Company on 15 March 2018.

The revised use of net proceeds from the Placing is set out as follows:

Uses	Original allocation *(HK$ million)*	Revised allocation *(HK$ million)*	Actual use of proceeds as at 31 December 2018 *(HK$ million)*
Upgrading the Group's ERP system	**4.6**	**4.6**	**0.4**
Expanding the Group's ELA business by engaging in:			
— Research and development staff expenses	2.5	2.5	2.5
— Equipment purchases	8.7	8.7	0.3
	11.2	**11.2**	**2.8**
Expanding the Group's product range by engaging in:			
— Car infotainment	2.8	2.8	2.8
— Drones Wi-Fi Transmission	2.8	2.8	2.8
— Artificial Intelligence and Internet-of-Things	—	5.6	—
— Others	5.6	—	—
	11.2	**11.2**	**5.6**
General working capital	**3.0**	**3.0**	**3.0**
Total	**30.0**	**30.0**	**11.8**

AUDITOR

Messrs. Deloitte Touche Tohmatsu was appointed as auditor of the Company and will retire and, being eligible, offer itself for re-appointment as auditor of the Company at the forthcoming annual general meeting.

Signed on behalf of the Board

Yim Yuk Lun, Stanley *BBS JP*
Chairman

Hong Kong, 26 March 2019

Deloitte. 德勤

To The Members Of Hi-Level Technology Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Hi-Level Technology Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 36 to 105, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key Audit Matter (Continued)

Key audit matter	How our audit addressed the key audit matter
Estimated allowance of inventories	
We identified the estimated allowance of inventories as a key audit matter due to the estimation and assumptions made by the management in identifying the obsolete and slow-moving inventory items, and estimating the allowance of inventories. Referring to Note 4 to the consolidated financial statements, the directors of the Company review inventories on a product-by-product basis at the end of each reporting period to identify obsolete and slow-moving inventory items based on the inventories ageing analysis and determine allowance of inventories by reference to net realisable value of the inventories. Net realisable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sales. The management estimates the net realisable value for inventories based primarily on the current market demand, latest selling prices and historical experiences on selling products with similar nature. As at 31 December 2018, the carrying value of inventories was HK$287,310,000 (net of allowance of HK$16,399,000).	Our procedures in relation to evaluating the appropriateness of estimated allowance of inventories included: • Understanding how the management identifies obsolete and slow-moving inventory items, and estimating the allowance of inventories as at 31 December 2018; • Testing the accuracy of the inventories ageing analysis as at 31 December 2018, on a sample basis; • Assessing the reasonableness of the net realisable value of inventories and allowance of inventories estimated by the management; • Tracing the latest selling prices to the sales invoices, on a sample basis; and • Evaluating the historical accuracy of the allowance of inventories estimated by the management.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Lam Sau Fung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue	5	**1,855,277**	2,254,447
Cost of sales		**(1,800,019)**	(2,157,360)
Gross profit		**55,258**	97,087
Other income		**2,864**	448
Other gain or loss		**(1,131)**	—
Reversal of impairment losses, net	8	**1,033**	(4,670)
Distribution costs		**(15,466)**	(14,676)
Administrative expenses		**(29,364)**	(24,951)
Finance costs	6	**(7,657)**	(7,770)
Profit before taxation		**5,537**	45,468
Income tax expense	7	**(1,359)**	(8,256)
Profit for the year	8	**4,178**	37,212
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations:			
— subsidiaries		**(3,205)**	5,077
Other comprehensive (expense) income for the year		**(3,205)**	5,077
Total comprehensive income for the year		**973**	42,289
Earnings per share (HK cents)	12		
— basic		**0.65**	6.05
— diluted		**0.64**	5.90

Consolidated Statement of Financial Position

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current Assets			
Property, plant and equipment	13	3,066	639
Club membership	14	266	266
Rental deposits	16	847	—
		4,179	905
Current Assets			
Inventories	15	287,310	239,349
Trade and other receivables	16	199,353	167,001
Debt instruments at fair value through other comprehensive income	17	3,943	—
Amounts due from related parties	18	—	7,634
Taxation recoverable		4,778	—
Bank balances and cash	19	115,082	92,377
		610,466	506,361
Current Liabilities			
Trade and other payables	20	157,971	197,452
Contract liabilities	21	11,581	—
Amount due to a related party	18	32	65
Taxation payable		1,392	4,648
Bank borrowings	22	304,656	161,282
		475,632	363,447
Net Current Assets		134,834	142,914
Total Assets less Current Liabilities		139,013	143,819
Capital and Reserves			
Share capital	23	6,503	6,267
Reserves		132,510	137,552
Total Equity		139,013	143,819

The consolidated financial statements on pages 36 to 105 were approved and authorised for issue by the Board of Directors on 26 March 2019 and are signed on its behalf by:

Mr. Yim Yuk Lun, Stanley *BBS JP*
DIRECTOR

Mr. Chang Wei Hua
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (note i)	Translation reserve HK$'000	Dividend reserve HK$'000	Shareholder's contribution reserve HK$'000 (note ii)	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	6,000	36,440	25,000	(1,899)	12,000	448	1,643	31,542	111,174
Profit for the year	—	—	—	—	—	—	—	37,212	37,212
Exchange differences arising on translation of foreign operations — subsidiaries	—	—	—	5,077	—	—	—	—	5,077
Total comprehensive income for the year	—	—	—	5,077	—	—	—	37,212	42,289
Issue of shares upon exercise of share options (Note 23(a))	267	9,041	—	—	—	—	(1,043)	—	8,265
Transaction costs attributable to issue of new shares	—	(8)	—	—	—	—	—	—	(8)
Dividend declared (Note 11)	—	—	—	—	12,533	—	—	(12,533)	—
Dividend paid (Note 11)	—	—	—	—	(12,000)	—	—	(6,444)	(18,444)
Recognition of equity-settled share-based payment (Note 28)	—	—	—	—	—	—	543	—	543
At 31 December 2017	6,267	45,473	25,000	3,178	12,533	448	1,143	49,777	143,819
Adjustments (Note 2)	—	—	—	—	—	—	—	(139)	(139)
At 1 January 2018 (restated)	6,267	45,473	25,000	3,178	12,533	448	1,143	49,638	143,680
Profit for the year	—	—	—	—	—	—	—	4,178	4,178
Exchange differences arising on translation of foreign operations — subsidiaries	—	—	—	(3,205)	—	—	—	—	(3,205)
Total comprehensive (expense) income for the year	—	—	—	(3,205)	—	—	—	4,178	973
Issue of shares upon exercise of share options (Note 23(b))	236	8,007	—	—	—	—	(924)	—	7,319
Dividend paid (Note 11)	—	—	—	—	(12,533)	—	—	(437)	(12,970)
Recognition of equity-settled share-based payment (Note 28)	—	—	—	—	—	—	11	—	11
At 31 December 2018	6,503	53,480	25,000	(27)	—	448	230	53,379	139,013

notes:

(i) Special reserve represents the difference between the nominal amount of the share capital of Hi-Level Technology Limited ("Hi-Level Hong Kong") and nominal amount of the share capital issued by the Company pursuant to a group reorganisation completed on 7 December 2015.

(ii) Shareholder's contribution reserve represents capital contribution arising from the share options granted to the employees of the Group under the share option scheme of the shareholder, S.A.S. Dragon Holdings Limited ("S.A.S. Dragon"). Details of which are set out in Note 28(a).

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**5,537**	45,468
Adjustments for:		
Depreciation of property, plant and equipment	**623**	326
Expenses recognised in respect of equity-settled share-based payment	**11**	543
Finance costs	**7,657**	7,770
Interest income	**(127)**	(280)
(Reversal of) allowance for trade receivables, net	**(1,033)**	4,670
Allowance for inventories	**12,075**	—
Loss on disposal of property, plant and equipment	**3**	—
Operating cash flows before movements in working capital	**24,746**	58,497
Increase in inventories	**(61,057)**	(1,822)
(Increase) decrease in trade and other receivables	**(46,983)**	23,081
Decrease in debt instruments at fair value through other comprehensive income	**8,341**	—
Decrease (increase) in amounts due from related parties	**7,634**	(6,224)
Decrease in trade and other payables	**(32,825)**	(109,333)
Increase in contract liabilities	**6,336**	—
Decrease in amount due to a related party	**(33)**	(155)
Cash used in operations	**(93,841)**	(35,956)
Hong Kong Profits Tax paid	**(9,218)**	(8,554)
The People's Republic of China (the "PRC") Enterprise Income Tax ("EIT") refunded (paid)	**10**	(135)
NET CASH USED IN OPERATING ACTIVITIES	**(103,049)**	(44,645)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(3,065)**	(399)
Interest received	**127**	280
NET CASH USED IN INVESTING ACTIVITIES	**(2,938)**	(119)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES		
New bank borrowings raised	1,045,015	961,865
Proceeds from issue of new shares	7,319	8,257
Repayment of bank borrowings	(901,641)	(927,206)
Dividend paid	(12,970)	(18,444)
Interest paid	(7,657)	(7,770)
NET CASH FROM FINANCING ACTIVITIES	130,066	16,702
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,079	(28,062)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	92,377	118,242
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1,374)	2,197
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	115,082	92,377

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM") by way of placing (the "Placing") on 7 January 2016 (the "Listing"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 31.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is different from the functional currency of the Company, United States dollar ("US$"). The directors of the Company consider that presenting the consolidated financial statements in HK$ is preferable when controlling and monitoring the performance and financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the sales of electronic products with/without the provision of independent design house services which arise from contracts with customers:

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	**Carrying amounts under HKFRS 15 at 1 January 2018 HK$'000**
Current liabilities			
Trade and other payables	197,452	(5,245)	**192,207**
Contract liabilities	—	5,245	**5,245**

Note: As at 1 January 2018, advances from customers of HK$5,245,000 previously included in trade and other payables were reclassified to contract liabilities.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.1 HKFRS 15 *Revenue from Contracts with Customers (Continued)*

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustment	Amounts without application of HKFRS 15
	HK$'000	HK$'000	HK$'000
Current liabilities			
Trade and other payables	157,971	11,581	169,552
Contract liabilities	11,581	(11,581)	—

Impact on the consolidated statement of cash flows

	As reported	Adjustment	Amounts without application of HKFRS 15
	HK$'000	HK$'000	HK$'000
Operating activities			
Decrease in trade and other payables	(32,825)	6,336	(26,489)
Increase in contract liabilities	6,336	(6,336)	—

2.2 HKFRS 9 *Financial Instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.2 HKFRS 9 *Financial Instruments* (Continued)

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Financial assets at amortised cost (previously classified as loans and receivables) HK$'000	Debt instruments at fair value through other comprehensive income ("FVTOCI") HK$'000	Retained profits HK$'000
Closing balance at 31 December 2017				
— HKAS 39		249,086	—	49,777
Effect arising from initial application of HKFRS 9:				
Reclassification				
From loans and receivables	(a)	(12,284)	12,284	—
Remeasurement				
Impairment under ECL model	(b)	(139)	—	(139)
Opening balance at 1 January 2018		236,663	12,284	49,638

(a) Loans and receivables

As part of the Group's cash flow management and mitigation of credit risk, the Group has the practice of factoring some of the trade receivables from certain debtors to financial institutions before the trade receivables are due for payment and derecognises the trade receivables on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's trade receivables of HK$12,284,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI. The related fair value of those trade receivables was approximately the same as their carrying amounts and no adjustment was made as at 1 January 2018.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.2 HKFRS 9 *Financial Instruments* (Continued)

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. All balances have been assessed individually.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including other receivables, amounts due from related parties and bank balances and cash, and debt instruments at FVTOCI, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$139,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset, except for the debt instruments which is measured at FVTOCI, the loss allowance for which is recognised against the FVTOCI reserve.

All loss allowances, including trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables HK$'000
At 31 December 2017 — HKAS 39	4,670
Amounts remeasured through opening retained profits	139
At 1 January 2018	4,809

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standard

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items were not affected by the changes have not been included.

	31 December 2017 (Audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	**1 January 2018 (Restated) HK$'000**
Current assets				
Trade and other receivables	167,001	—	(12,423)	**154,578**
Debt instruments at FVTOCI	—	—	12,284	**12,284**
Current liabilities				
Trade and other payables	197,452	(5,245)	—	**192,207**
Contract liabilities	—	5,245	—	**5,245**
Capital and Reserves				
Reserves	137,552	—	(139)	**137,413**

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

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

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 *Leases* (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents other operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$7,051,000 as disclosed in Note 24. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$1,159,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Continued)

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

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

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

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

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled. The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Continued)

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customers returns, rebates, sales tax and other similar allowances.

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages, salaries and annual leaves) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 28 to the Group's consolidated financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into considerations all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they related to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible assets other than club membership (see the accounting policy in respect of club membership below)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amounts of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to the assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Club membership

Club membership with indefinite useful lives is carried at cost less any subsequent accumulated impairment losses.

Club membership is tested for impairment at least annually, and whenever there is any indication that they may be impaired by comparing their carrying amounts with their recoverable amounts. If the recoverable amount of club membership is estimated to be less than its carrying amount, the carrying amount of the club membership is reduced to its recoverable amount. An impairment loss is recognised in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the club membership is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for those club membership in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (Continued)

(i) Amortised cost and interest income

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

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, debt instruments at FVTOCI, amounts due from related parties and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (Continued)

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

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

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

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

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

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

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

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The ECL is measured individually for all debtors, including trade and other receivables, bank balances and debt instruments at FVTOCI.

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period ranging 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amount due to a related party and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision of ECL for trade and other receivables and debt instruments at FVTOCI

The Group measures ECL for all trade and other receivable and debt instruments at FVTOCI individually based on internal credit ratings. The internal credit ratings and loss rates are estimated by reference to the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and other and debt instruments at FVTOCI are disclosed in Notes 16, 17 and 26.

Estimated allowance of inventories

The directors of the Company review the inventories on a product-by-product basis at the end of each reporting period to identify obsolete and slow-moving inventory items based on the inventories ageing analysis and determine allowance of inventories by reference to net realisable value of the inventories. Net realisable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the current market demand, latest selling prices and historical experiences on selling products with similar nature. As at 31 December 2018, the carrying value of inventories was HK$287,310,000 (2017: HK$239,349,000) net of allowance of HK$16,399,000 (2017: HK$4,324,000).

5. REVENUE AND SEGMENT INFORMATION

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018 HK$'000
Type of goods or services	
Sales of electronic products with/without the provision of independent design house services	1,855,277
Geographical markets	
The PRC	1,302,858
Hong Kong	518,521
Taiwan	26,898
Others	7,000
Total	1,855,277
Timing of revenue recognition	
A point in time	1,855,277

5. REVENUE AND SEGMENT INFORMATION (Continued)

A. For the year ended 31 December 2018 (Continued)

(ii) Performance obligations for contracts with customers

Sales of electronic products with/without the provision of independent design house services

The Group sells electronic products with/without the provision of independent design house services directly to customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customer's specific location (delivery). The normal credit term is 30 to 90 days upon delivery.

Under the Group's standard contract terms, customers have a right to exchange for defective products within 7 days. The Group uses its accumulated historical experience to estimate the number of exchange on a portfolio level using the expected value method. Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A contract liability is recognised for sales in which revenue has yet been recognised. The Group's right to recover the product when customers exercise their right is recognised as a right to returned goods asset and a corresponding adjustment to cost of sales.

Contracts for sales of electronic products with/without the provision of independent design house services are typically have a non-cancellable term in which the Group bills a portion of the contract sum in advance and the remaining when the good is delivered. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. For the year ended 31 December 2017

The Group is principally engaged in the sale of electronic products with/without the provision of independent design house services.

The executive directors of the Company have determined that the Group has only one operating and reportable segment throughout both years.

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses only on revenue analysis by geographical location of customers. As no other discrete financial information is available for the assessment of different business activities, no segment information is presented other than entity-wide disclosures.

5. REVENUE AND SEGMENT INFORMATION (Continued)

B. For the year ended 31 December 2017 (Continued)

Geographical information

The following is an analysis of the Group's revenue by the geographical locations of customers.

	Revenue by Geographical market	
	2018	2017
	HK$'000	HK$'000
The PRC	**1,302,858**	1,862,112
Hong Kong	**518,521**	368,337
Taiwan	**26,898**	23,498
Others	**7,000**	500
	1,855,277	2,254,447

The following is an analysis of the carrying amount of non-current assets by geographical area in which the assets are located:

	Carrying amount of non-current assets	
	2018	2017
	HK$'000	HK$'000
The PRC	**2,506**	239
Hong Kong	**826**	666
	3,332	905

Information about major customers

Revenue from customer individually contributing over 10% of the Group's revenue is as follows:

	2018	2017
	HK$'000	HK$'000
Customer A (note)	**N/A**	259,285

note: The corresponding revenue did not contribute over 10% of the total revenue of the Group.

6. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interests on:		
Bank borrowings	**7,657**	7,770

7. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong Profits Tax	**1,248**	8,147
The PRC Enterprise Income Tax ("EIT")	**—**	109
	1,248	8,256
Under (over) provision in prior years:		
Hong Kong Profits Tax	**140**	—
PRC EIT	**(29)**	—
	111	—
Income tax expense	**1,359**	8,256

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

Accordingly, starting from the current year, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the Group's PRC subsidiaries are subject to PRC EIT at the statutory rate of 25%, except that Shenzhen Hi-Level Technology Development Limited was recognised as a High and New Technology Enterprise by the PRC tax authorities on 25 October 2015 such that it was entitled to a concessionary tax rate of 15% for three consecutive years beginning from 2016 to 2019 and was subject to review once every three years.

7. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 HK$'000	2017 HK$'000
Profit before taxation	5,537	45,468
Tax at Hong Kong Profits Tax rate of 16.5%	914	7,502
Tax effect of expenses not deductible for tax purpose	441	743
Tax effect of tax losses not recognised	61	21
Utilisation of deductible temporary differences previously not recognised	(3)	(54)
Effect of different tax rates of subsidiaries operating in other jurisdictions	—	62
Tax effect of concessionary tax rate granted	(165)	(73)
Under(over)provision in prior years	111	—
Others	—	55
Income tax expense for the year	1,359	8,256

As 31 December 2018, the Group has unused tax losses of approximately HK$2,413,000 (2017: HK$2,043,000) that are available for offset against future assessable profits. No deferred tax asset has been recognised in respect of such tax losses due to unpredictability of future profit streams. All the tax losses may be carried forward indefinitely except for those amounting to HK$744,000 (2017: HK$357,000) arising from the PRC which may be carried forward for five years.

8. PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration (Note 9)	**4,619**	4,925
Staff costs:		
Salaries and other allowances	**18,845**	20,395
Performance related incentive payments	**—**	1,155
Retirement benefit scheme contributions	**1,875**	1,808
Share-based payment expenses (note i)	**10**	467
	20,730	23,825
Total staff costs	**25,349**	28,750
Auditor's remuneration	**1,440**	1,149
Bank interest income	**(127)**	(280)
Net exchange loss (gain)	**1,059**	(311)
Cost of inventories recognised as an expense	**1,750,883**	2,105,654
Allowance for inventories	**12,075**	—
Net (reversal of) impairment loss recognised on trade receivables (note iii)	**(1,033)**	4,670
— Debt instruments of FVTOCI	**(5)**	—
Depreciation of property, plant and equipment	**623**	326
Loss on disposal of property, plant and equipment	**3**	—
Government grants (note ii)	**1,299**	—
Operating lease rental in respect of offices and warehouses paid/payable to		
— a substantial shareholder	**393**	384
— a related party	**127**	123
— third parties	**3,709**	1,294

notes:

(i) During the year ended 31 December 2018, share-based payment expenses of HK$11,000 (2017: HK$543,000) were recognised under the pre-IPO share option scheme of the Company.

(ii) The amount represents government grants to High and New Technology Enterprise in the PRC. The Group recognised these grants as other income upon receipt.

(iii) Details of impairment assessment for the year ended 31 December 2018 are set out in Note 26.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

	2018				
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payment expenses HK$'000	Total emoluments HK$'000
Executive Directors:					
Mr. Chang Wei Hua (note c)	—	1,231	18	—	1,249
Mr. Wei Wei	—	861	48	—	909
Mr. Tong Sze Chung	—	672	18	—	690
Mr. Yim Yuk Lun, Stanley *BBS JP*	—	1,200	18	—	1,218
Non-Executive Directors:					
Mr. Wong Wai Tai	240	—	12	1	253
Independent Non-Executive Directors:					
Mr. Shea Chun Lok, Quadrant	100	—	—	—	100
Mr. Fung Cheuk Nang, Clement	100	—	—	—	100
Mr. Tsoi Chi Ho, Peter	100	—	—	—	100
Total	540	3,964	114	1	4,619

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

	2017					
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Performance related incentive payments (note b) HK$'000	Share-based payment expenses HK$'000	Total emoluments HK$'000
Executive Directors:						
Mr. Chang Wei Hua (note c)	—	1,205	18	100	6	1,329
Mr. Wei Wei	—	844	48	70	6	968
Mr. Tong Sze Chung	—	642	18	64	6	730
Mr. Yim Yuk Lun, Stanley *BBS JP*	—	1,200	18	100	—	1,318
Non-Executive Directors:						
Mr. Wong Wai Tai	240	—	12	20	40	312
Independent Non-Executive Directors:						
Mr. Shea Chun Lok, Quadrant	50	—	—	—	6	56
Mr. Fung Cheuk Nang, Clement	100	—	—	—	6	106
Mr. Tsoi Chi Ho, Peter	100	—	—	—	6	106
Total	490	3,891	114	354	76	4,925

notes:

(a) The executive directors' emoluments shown above were mainly for their services in connection with management of the affairs of the Company and the Group. The non-executive and independent non-executive directors' emoluments shown above were for their services as directors of the Company and the Group.

(b) Performance related incentive payments were determined with reference to the Group's operating results and individual performance.

(c) Mr. Chang Wei Hua is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived or agreed to waive any emolument during the both years.

10. EMPLOYEES' REMUNERATION

Of the five highest paid individuals in the Group, three (2017: three) were directors of the Company whose remuneration are set out in Note 9 above. The remuneration of the remaining two (2017: two) individuals are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	1,367	1,332
Performance related incentive payments	—	111
Retirement benefits scheme contributions	24	24
Share-based payment expenses	—	12
	1,391	1,479

Their remunerations were within the following bands:

	2018 No. of employees	2017 No. of employees
Nil to HK$1,000,000	2	2

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office..

11. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 Interim of HK$0.01 per share was declared and paid	—	6,236
2017 Final of HK$0.02 (2017: 2016 Final of HK$0.02) per share was declared and paid	12,970	12,208
	12,970	18,444

Note: Subsequent to the end of the reporting period, a final dividend of HK$0.01 in respect of the year ended 31 December 2018 (2017: final dividend of HK$0.02 in respect of the year ended 31 December 2017) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2018 HK$'000	2017 HK$'000
Earnings:		
Profit for the year for the purpose of basic earnings per share	4,178	37,212
Number of shares:	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	645,723	615,580
Effect of dilutive potential shares:		
Share options	2,611	15,117
Weighted average number of shares for the purpose of diluted earnings per share	648,334	630,697

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
COST					
At 1 January 2017	1,729	194	273	2,947	5,143
Exchange realignment	100	6	22	58	186
Additions	—	2	—	397	399
At 31 December 2017	1,829	202	295	3,402	5,728
Exchange realignment	(50)	(6)	(9)	(35)	(100)
Additions	1,657	543	—	865	3,065
Disposal	—	—	—	(10)	(10)
At 31 December 2018	**3,436**	**739**	**286**	**4,222**	**8,683**
DEPRECIATION					
At 1 January 2017	1,654	183	273	2,481	4,591
Exchange realignment	96	6	21	49	172
Provided for the year	40	11	1	274	326
At 31 December 2017	1,790	200	295	2,804	5,089
Exchange realignment	(47)	(6)	(9)	(26)	(88)
Provided for the year	204	33	—	386	623
Elimination upon disposal	—	—	—	(7)	(7)
At 31 December 2018	**1,947**	**227**	**286**	**3,157**	**5,617**
CARRYING VALUES					
At 31 December 2018	**1,489**	**512**	**—**	**1,065**	**3,066**
At 31 December 2017	39	2	—	598	639

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	18%–20% or over the term of the relevant lease, whichever is shorter
Furniture and fixtures	18%–33%
Motor vehicles	18%–33%
Office equipment	18%–33%

14. CLUB MEMBERSHIP

	2018 & 2017 HK$'000
Golf club membership in the PRC at cost	266

At the end of the reporting period, the club membership was tested for impairment by comparing its carrying amount with its recoverable amount. The directors of the Company determined that no impairment loss was necessary and is of the opinion that the club membership is worth at least its carrying amount.

15. INVENTORIES

	2018 HK$'000	2017 HK$'000
Finished goods	**287,310**	239,349

16. TRADE AND OTHER RECEIVABLES/RENTAL DEPOSITS

	2018 HK$'000	2017 HK$'000
Trade receivables	**161,981**	143,881
Less: allowance for credit losses	**(781)**	(4,670)
	161,200	139,211
Other receivables, deposits and prepayments	**39,000**	27,790
Total trade and other receivables	**200,200**	167,001
Less: receivables within twelve months shown under current assets	**(199,353)**	(167,001)
Rental deposits shown under non-current assets	**847**	—

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$161,200,000 and HK$139,072,000, respectively.

The Group allows credit period ranging from 30 days to 90 days which are agreed with each of its trade customers.

16. TRADE AND OTHER RECEIVABLES/RENTAL DEPOSITS (Continued)

The following is an ageing analysis of trade receivables net of allowance for credit losses presented based on due date at the end of each reporting period:

	2018 HK$'000	2017 HK$'000
Not pass due	86,430	101,328
Overdue by:		
1–30 days	61,976	31,552
31–60 days	5,685	6,299
61–90 days	3,034	—
Over 90 days	4,075	32
	161,200	139,211

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$7,477,000 which are past due as at the reporting date. Out of the past due balances, HK$4,075,000 has been past due 90 days or more and is not considered as in default as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

As at 31 December 2017, the trade receivables that are neither past due nor impaired have the best credit ratings attributable under the internal credit rating system used by the Group.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$37,883,000 which are past due at the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

16. TRADE AND OTHER RECEIVABLES/RENTAL DEPOSITS (Continued)

Ageing of trade receivables which are past due but not impaired

	2017 HK$'000
1–30 days	31,552
31–90 days	6,299
Over 90 days	32
	37,883

Movement in the allowance for doubtful debts

	2017 HK$'000
1 January	—
Provision for allowance for trade receivables	4,670
31 December	4,670

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of each reporting period.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 26.

17. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018
	HK$'000
Trade receivables held for collecting contractual cash flows or factoring to banks	3,943

Details of impairment assessment are set out in Note 26.

18. AMOUNT(S) DUE FROM (TO) RELATED PARTIES

	2018	2017
	HK$'000	HK$'000
Amounts due from related parties (note a)	—	7,634
Amount due to a related party (note b)	32	65

notes:

(a) The amounts due from related parties represented amounts due from subsidiaries of S.A.S. Dragon. They are trade-related, unsecured, interest-free with a credit period of 30 days to 90 days and denominated in HK$ which is other than the functional currency of the relevant group entities.

The following is an ageing analysis of the trade-related amounts due from related parties presented based on the due date at the end of each reporting period:

	2018	2017
	HK$'000	HK$'000
Not past due	—	7,634

For the year ended 31 December 2018, the Group performed impairment assessment on the amounts due from related parties and concluded that the probability of defaults of the counterparties are insignificant and accordingly no allowance for credit losses is provided.

(b) The amount due to a related party represented an amount due to a subsidiary of S.A.S. Dragon. It is trade-related, unsecured, interest free with a credit period 30 days to 90 days and denominated in HK$ which is other than the functional currency of the relevant group entities.

The following is an ageing analysis of the amount due to a related party presented based on the due date at the end of each reporting period:

	2018	2017
	HK$'000	HK$'000
Not past due	32	65

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash on hand and bank balances. Bank balances carry interest at variable prevailing market interest rate which ranged from 0.01% to 0.30% per annum (2017: 0.01% to 0.30% per annum).

For the year ended 31 December 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly no allowance for credit losses is provided. Details of impairment assessment of bank balances for the year ended 31 December 2018 are set out in note 26.

The Group's bank balances and cash that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2018 HK$'000	2017 HK$'000
HK$	17,245	3,231
RMB	42	27

20. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	147,536	181,579
Other payables and accruals	10,435	15,873
Total trade and other payables	157,971	197,452

The credit period on trade payables ranged from 30 days to 60 days.

20. TRADE AND OTHER PAYABLES (Continued)

The following is an ageing analysis of trade payables presented based on the due date at the end of each reporting period:

	2018 HK$'000	2017 HK$'000
Not pass due	85,850	123,058
Overdue by:		
1–30 days	30,617	50,195
31–90 days	30,876	3,169
Over 90 days	193	5,157
	147,536	181,579

21. CONTRACT LIABILITIES

The amounts represented advance payments from customers for goods. The amounts of HK$5,245,000 that represented the entire contract liabilities balances at the beginning of the year, were recognised as revenue during the year ended 31 December 2018. The management expects that the unsatisfied performance obligations will be recognised as revenue within one year according to the contract period.

22. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Unsecured bank borrowings:		
Invoice financing, export loan and import loan	304,656	161,282
Carrying amount of bank borrowings repayable on demand or within one year (note)	304,656	161,282

note: All the bank borrowings are repayable within a period not exceeding one year.

As at 31 December 2018, the bank borrowings of HK$304,656,000 (2017: HK$161,282,000) denominated in USD bear interests ranging from London Interbank Offered Rate ("LIBOR") plus 1.10% (2017: 1.10%) to LIBOR plus 1.50% (2017: 1.50%) per annum, and the average effective interest rate is 3.41% (2017: 2.63%) as at 31 December 2018.

23. SHARE CAPITAL

Details of movements of authorised and issued capital of the Company during the year are as follows:

	Notes	Number of ordinary shares	Amount HK$
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2017, 31 December 2017 and 2018		2,000,000,000	20,000,000
Issued and fully paid:			
At 1 January 2017		600,000,000	6,000,000
Exercise of share options	(a)	26,660,000	266,600
At 31 December 2017		626,660,000	6,266,600
Exercise of share options	(b)	23,610,000	236,100
At 31 December 2018		650,270,000	6,502,700
Balance presented in HK$'000			
At 31 December 2018			6,503
At 31 December 2017			6,267

notes:

(a) During the year ended 31 December 2017, 26,660,000 share options were exercised and converted into 26,660,000 ordinary shares at the exercise price of HK$0.31 per share.

(b) During the year ended 31 December 2018, 23,610,000 share options were exercised and converted into 23,610,000 ordinary shares at the exercise price of HK$0.31 per share.

24. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and warehouse which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	3,862	616
In the second to fifth year inclusive	3,189	—
	7,051	616

Operating lease payments represents rentals payable by the Group for certain of its office premises. Leases are negotiated for lease term ranged from 1 year to 3 years (2017: ranged from 0.5 years to 1 year)

25. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in Note 22, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debts.

26. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Debt instruments at FVTOCI	3,943	—
Financial assets at amortised cost	305,380	—
Loans and receivables (including cash and cash equivalents)	—	249,086
Financial liabilities		
Amortised cost	457,645	348,582

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount(s) due from (to) related parties, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities that are denominated in currencies other than the functional currency at the respective reporting date are as follows:

	Liabilities		Assets	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
HK$	32	65	17,258	10,865
Renminbi ("RMB")	—	—	42	27

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company will monitor foreign exchange exposure closely and consider the usage of hedging instruments when the need arises.

26. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

As at 31 December 2018, the outstanding foreign currency denominated monetary items includes only bank balances denominated in RMB amounted to HK$42,000 (2017: HK$27,000). No sensitivity analysis for the Group's sensitivity to changes in RMB against HK$ is presented as the directors of the Company consider that the exposure to exchange fluctuation in respect of RMB is insignificant.

No sensitivity analysis for the Group's sensitivity to change in USD against HK$ is presented as HK$ is currently pegged to USD. The directors of the Company consider that the exposure to exchange fluctuation in respect of HK$ is insignificant.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to fixed-rate bank borrowings and cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 22 for details of the bank borrowings). The directors of the Company considered that the credit risk on variable-rate bank balances is insignificant. The Group currently does not have any interest rate hedging policy. The directors of the Company monitor the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arises.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing market interest rates arising from the Group's LIBOR arising from the Group's variable-rate bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable-rate bank borrowings. The analysis is prepared assuming the variable-rate bank borrowings at the end of the reporting period were outstanding for the whole year. For variable-rate bank borrowings, 50 basis points (2017: 50 basis points) increase or decrease are used.

If interest rates have been 50 basis points (2017: 50 basis points) higher/lower for variable-rate bank borrowings and all other variables were held constant, the Group's post-tax profit for the year would increase or decrease by the following magnitude:

	2018	2017
	HK$'000	HK$'000
Decrease in profit for the year	**1,182**	673

26. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other receivable/amounts due from related parties

The Group assessed the impairment for its other receivables and amounts due from related parties individually based on internal credit rating and ageing of these debtors which, in the opinion of the directors of the Company, have no significant increase in credit risk since initial recognition. ECL is estimated based on historical observed default rates over the expected life of debtors and is adjusted for forward-looking information that is available without undue cost or effort. Based on the impairment assessment performed by the Group, the management of the Group considers the loss allowance for other receivables and amounts due from related parties within lifetime ECL as at 1 January 2018 and 31 December 2018 was insignificant and accordingly no allowance for credit losses is provided

Bank balances and cash

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Debt instruments at FVTOCI

Group's debt instruments at FVTOCI are the trade receivables that the Group would collect contractual cash flows or factor some of them to financial institutions. The Group performed impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually. Based on the impairment assessment performed by the Group, the management of the Group considers the loss allowance for debt instruments at FVTOCI within lifetime ECL as at 1 January 2018 and 31 December 2018 was insignificant and accordingly no allowance for credit losses is provided.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

26. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Category	Description	Trade receivables	Other financial assets
Performing	The counterparty has a low and have no past due amounts	Lifetime ECL-not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL-not credit-impaired	12m ECL
Doubtful	There has been a significant increase in credit risk since recognition through information developed internally or external resources	Lifetime ECL-not credit-impaired	Lifetime ECL-not credit-impaired
In default	There is evidence indicating that the asset is credit-impaired	Lifetime ECL-credit-impaired	Lifetime ECL-credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

26. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The table below detail the credit risk exposure of the Group's financial assets and debt instruments at FVTOCI, which are subject to ECL assessment:

2018	Notes	Internal credit rating	12-month or Lifetime ECL	Gross carrying amount
				HK$'000
Debt instruments at FVTOCI	17	Performing	Lifetime ECL-not credit-impaired	3,943
Financial assets at amortised costs				
Trade receivables	16	Performing	Lifetime ECL-not credit-impaired	161,154
		Watch list	Lifetime ECL-not credit-impaired	272
		In default	Credit-impaired	555
				161,981
Other receivables	16	Performing	12m ECL	29,098
Bank balances and cash	19	Performing	12m ECL	115,082

Based on the impairment assessment performed by the Group as at 31 December 2018, the Group applied average loss rates of 0.23% and 2.15% to trade receivables under internal credit ratings of performing and watch list, respectively.

During the year ended 31 December 2018, the Group provided HK$747,000 impairment allowance for trade receivables which were not credit-impaired debtors. Impairment allowance of HK$1,120,000 was reversed on credit-impaired debtors.

26. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 31 December 2017 under HKAS 39	—	4,670	4,670
Adjustment upon application of HKFRS 9	139	—	139
As at 1 January 2018 As restated	139	4,670	4,809
Changes due to financial instruments recognised as at 1 January:			
— Impairment losses reversed	(139)	(1,675)	(1,814)
— Write-offs	—	(2,995)	(2,995)
— New financial assets originated	226	555	781
As at 31 December 2018	226	555	781

26. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Changes in the loss allowance for trade receivables are mainly due to:

	Increase (decrease) in lifetime ECL (Credit-impaired) HK$'000
Settlement in full of a trade debtors with a gross carrying amount of HK$1,675,000	(1,675)

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by directors of the Company to finance the operations and mitigate the effects of fluctuations in cash flows. The directors of the Company monitor the utilisation of bank borrowings and ensure compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2018, the Group has available unutilised bank facilities of approximately HK$366,098,000 (31 December 2017: HK$221,094,000), respectively. Details of which are set out in Note 22.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates.

26. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk table

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2018 HK$'000
2018				
Trade and other payables	—	152,957	152,957	152,957
Amount due to a related party	—	32	32	32
Bank borrowings	3.41	304,656	304,656	304,656
		457,645	457,645	457,645

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2017 HK$'000
2017				
Trade and other payables	—	187,235	187,235	187,235
Amount due to a related party	—	65	65	65
Bank borrowings	2.63	161,282	161,282	161,282
		348,582	348,582	348,582

26. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2018, the aggregate carrying amounts of these bank borrowings amounted to HK$304,656,000 (2017: HK$161,282,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. However, in accordance with Hong Kong Interpretation 5 Presentation of Financial Statements Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause, all such bank borrowings have been classified as current liabilities. The following table below includes both principal and interest cash outflows according to the scheduled repayment dates set out in the loan agreements.

	Weighted average effective interest rate	On demand or less than 1 month	1–3 months	Total undiscounted cash flows	Carrying amount at 31 December
	%	HK$'000	HK$'000	HK$'000	HK$'000
2018					
Bank borrowings	**3.41**	**294,905**	**10,664**	**305,569**	**304,656**
2017					
Bank borrowings	2.63	145,649	15,981	161,630	161,282

The amounts included above for variable interest rate instruments for financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

26. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group will perform the valuation by establishing the appropriate valuation techniques and inputs to the model.

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Debt instruments at FVTOCI are measured at fair value at the end of each reporting period and their fair value classified as Level 3 in fair value hierarchy was HK$3,943,000 as at 31 December 2018 (2017: nil).

The fair value was estimated by discounted cash flow. Future cash flows are estimated based on the future cash collection discounted at a rate that reflects the credit risk of various counterparties. The discount rate is a significant unobservable input and the management considers the fluctuation in the discount rate would not result in a significant change in the fair value.

(ii) Reconciliation of Level 3 fair value measurements

31 December 2018

	Financial assets at FVTOCI HK$'000
Opening balance	12,284
Purchases	3,943
Settlements	(12,284)
Closing balance	3,943

(iii) Fair value of financial instruments that are recorded at amortised cost

The directors of the Company consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to the short-term maturities of these assets and liabilities.

27. RETIREMENT BENEFIT PLANS

The Group operate a MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at a rate of 5% specified in the rules, but subject to a cap. The only obligation of the Group with respect of MPF Scheme is to make the required contributions at rate specified under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their basic payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions at rate specified under the schemes. No forfeited contribution is available to reduce the contribution payable in future years.

The total expense of HK$1,989,000 (2017: HK$1,922,000) was recognised in profit or loss during the year.

28. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme of S.A.S. Dragon

Pursuant to a resolution of S.A.S. Dragon passed on 27 July 2012, S.A.S. Dragon adopted a share option scheme (the "Scheme") for recognition of past services contributed by, and giving incentives to the eligible participants, including directors, non-executive directors, employees, shareholders, suppliers and customers of S.A.S. Dragon and any of its subsidiaries.

According to the Scheme, the board of directors of S.A.S. Dragon may at their discretion grant options to directors, executives and employees of S.A.S. Dragon and its subsidiaries to subscribe for shares in S.A.S. Dragon.

28. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) Equity-settled share option scheme of S.A.S. Dragon (Continued)

On 25 September 2014, the company was a subsidiary of S.A.S. Dragon and there were share options granted to directors or employees of entities comprising the Group under the Scheme for the services to the Group. The following tables disclose movements in the share options granted to the employees of the Group under the Scheme during the year:

Date of grant	Vesting period	Exercisable period	Exercise price per share	Outstanding at 1.1.2017	Exercised during 2017	Lapsed during 2017	Outstanding at 31.12.2017 and 31.12.2018
25.9.2014	25.9.2014 to 24.9.2015	25.9.2015 to 24.9.2017	HK$2.60	437,000	(95,000)	(342,000)	—
25.9.2014	25.9.2015 to 24.9.2016	25.9.2016 to 24.9.2017	HK$2.6	418,000	(95,000)	(323,000)	—
				855,000	(190,000)	(665,000)	—

Share options granted in September 2014 under the Scheme are exercisable during the period from 25 September 2015 to 24 September 2017 in two batches.

No expenses have been recognised for the years ended 31 December 2018 and 2017, in relation to the share options granted by S.A.S. Dragon.

28. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Equity-settled pre-IPO share option scheme of the Company

Pursuant to a written resolution of the shareholders of the Company dated 11 October 2015, the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company was approved and adopted. The Pre-IPO Share Option Scheme was established to recognise and motivate the contribution of the eligible persons and to provide incentives and help the Company in retaining its existing employees, including any full time or part time employee (including any executive and non-executive director or proposed executive director and non-executive director) of the Group (the "Employees"), and to recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company. Under the Pre-IPO Share Option Scheme, the Board of Directors of the Company may grant options to the following eligible persons to subscribe for shares in the Company (the "Eligible Persons"):

(i) any employees;

(ii) any direct or indirect shareholder of any member of our Group;

(iii) any supplier of goods or services to any member of our Group;

(iv) any customer, consultant, business or joint venture partners, franchisee, contractor, agent or representative of any member of our Group;

(v) any person or entity furnishing research, development or other technical support, enquiries, consultancy, professional or other services to any member of our Group; and

(vi) any associate of the foregoing persons.

Prior to the Listing, options to subscribe for an aggregate of 60,000,000 shares of the Company, representing 10% of the enlarged issued share capital of the Company immediately after the completion of the Placing, at an exercise price of HK$0.31 per share of the Company, have been granted to a total of 173 grantees under the Pre-IPO Share Option Scheme of the Company conditionally upon the Listing.

Options granted must be taken up within 10 days of the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. Grantees may exercise up to 50% of such options granted for two years commencing from the first anniversary of 7 January 2016 (the "Listing Date") and the remaining outstanding options for one year commencing from the second anniversary of the Listing Date.

28. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Equity-settled pre-IPO share option scheme of the Company (Continued)

The following table discloses movements of the Company's share options granted under the Pre-IPO Share Option Scheme held by the directors and employees of the Group during the year:

Grantees	Vesting proportion	Vesting date	Exercisable period	Exercise price per share	Outstanding at 1.1.2017	Options exercised during 2017	Options forfeited during 2017	Outstanding at 31.12.2017	Options exercised during the year	Outstanding at 31.12.2018
The Company										
Employees	50%	6.1.2017	7.1.2017 to 6.1.2019	HK$0.31	14,175,000	(13,980,000)	(105,000)	90,000	(40,000)	50,000
	50%	6.1.2018	7.1.2018 to 6.1.2019	HK$0.31	14,175,000	—	(425,000)	13,750,000	(13,700,000)	50,000
Directors	50%	6.1.2017	7.1.2017 to 6.1.2019	HK$0.31	1,800,000	(1,500,000)	—	300,000	—	300,000
	50%	6.1.2018	7.1.2018 to 6.1.2019	HK$0.31	1,800,000	—	—	1,800,000	(1,200,000)	600,000
S.A.S. Dragon										
Employees	50%	6.1.2017	7.1.2017 to 6.1.2019	HK$0.31	8,950,000	(7,680,000)	(75,000)	1,195,000	(295,000)	900,000
	50%	6.1.2018	7.1.2018 to 6.1.2019	HK$0.31	8,950,000	—	(125,000)	8,825,000	(7,175,000)	1,650,000
Directors	50%	6.1.2017	7.1.2017 to 6.1.2019	HK$0.31	3,500,000	(3,500,000)	—	—	—	—
	50%	6.1.2018	7.1.2018 to 6.1.2019	HK$0.31	3,500,000	—	—	3,500,000	(1,200,000)	2,300,000
					56,850,000	(26,660,000)	(730,000)	29,460,000	(23,610,000)	5,850,000
Exercisable at the end of the years					—			1,585,000		5,850,000
Weighted average exercise price					HK$0.31	HK$0.31	HK$0.31	HK$0.31	HK$0.31	HK$0.31

The estimated fair value of the options granted is approximately HK$2,347,000. The fair value was calculated using the Binomial Option Pricing model. The inputs into the model were as follows:

Underlying share price	HK$0.29
Exercise price	HK$0.31
Expected volatility	32.80%
Expected life	3.01 years
Risk-free rate	0.72%
Expected dividend yield	5.17%

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

In respect of the share options granted to the employees and directors of the Company and S.A.S. Dragon, the Group recognised total expenses of approximately HK$11,000 (2017: HK$543,000) for the year ended 31 December 2018 under the Pre-IPO Share Option Scheme of the Company.

28. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(c) Equity-settled share option scheme of the Company

Pursuant to a written resolution of the shareholders of the Company dated 23 December 2015, the share option scheme (the "2015 Scheme") was approved and adopted. The Scheme was established for the purpose of providing incentives or rewards for the contribution of directors of the Company and the Eligible Persons, and will expire on 22 December 2025. Under the 2015 Scheme, the directors of the Company may at their discretion grant options to the Eligible Persons.

Options granted must be taken up within 14 days of the date of grant. The maximum number of shares of the Company in respect of which options may be granted under the 2015 Scheme shall not exceed 30% of the issued share capital of the Company at any point in time. The total number of shares of the Company in respect of which options may be granted under the 2015 Scheme must not in aggregate exceed 10% of the total nominal value of the share capital of the Company in issue immediately following completion of the Placing. The maximum number of shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the directors of the Company (which shall be less than ten years from the date of issue of the relevant option). Upon acceptance of the option, the grantee shall pay HK$1.00 to our Company as consideration for the grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

During the years ended 31 December 2017 and 2018, no share option has been granted, expired, lapsed or exercised under this scheme.

29. RELATED PARTY TRANSACTIONS AND BALANCES

(a) During the year, the Group entered into the following significant transactions with related parties:

Name of parties	**Nature of transactions**	**2018 HK$'000**	2017 HK$'000
S.A.S Investment Company Limited ("S.A.S Investment") (note 1)	Rental expense paid	**393**	384
Subsidiaries of S.A.S. Dragon (note 2)	Sales of electronic products	**2,562**	10,491
	Purchase of electronic products	**—**	16
	Rental expense paid	**150**	123

note 1: S.A.S. Investment is a substantial shareholder of the Company, who held 211,963,000 (2017: 206,633,000) of the issued share capital of the Company as at 31 December 2018. The Company is an associate of S.A.S. Investment as SAS Investment can exercise significant influence over the Company.

note 2: S.A.S. Dragon is the ultimate holding company of S.A.S. Investment and is therefore deemed to be interested in the equity interests held by S.A.S. Investment. The Company is an associate of a subsidiary of S.A.S. Dragon.

(b) Details of the outstanding balances with related parties are set out in the consolidated statement of financial position and in Note 18.

(c) The compensation paid to the key management personnel was as follows:

Compensation of key management personnel

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**5,723**	5,586
Performance related incentive payments	**—**	454
Retirement benefits scheme contributions	**161**	162
Share-based payment expenses	**1**	88
	5,885	6,290

The remuneration of key management personnel is determined with regard to the performance of the individuals and market trends.

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

The statement of financial position of the Company as at 31 December 2018 is as follows:

	2018 HK$'000	2017 HK$'000
Non-current Asset		
Amount due from subsidiaries	59,715	45,195
Investment in a subsidiary	101,700	100,453
	161,415	145,648
Current Assets		
Dividend receivable from a subsidiary	—	21,533
Prepayment	42	41
Bank balances and cash	181	187
	223	21,761
Current Liabilities		
Accruals	29	150
Amounts due to subsidiaries	23	23
Taxation payable	238	80
	290	253
Net Current (Liabilities) Assets	(67)	21,508
Total Assets less Current Liabilities	161,348	167,156
Capital and Reserves		
Share capital	6,503	6,267
Share premium and reserves (note)	154,845	160,889
Total Equity	161,348	167,156

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

note:

	Share premium HK$'000	Special reserve HK$'000	Share options reserve HK$'000	Dividend reserve HK$'000	Retained profits (accumulated losses) HK$'000	Total HK$'000
At 1 January 2017	35,517	100,152	1,643	12,000	(529)	148,783
Profit for the year	—	—	—	—	22,017	22,017
Issue of shares upon exercise of share options	9,033	—	(1,043)	—	—	7,990
Dividend declared	—	—	—	12,533	(12,533)	—
Dividend paid	—	—	—	(12,000)	(6,444)	(18,444)
Recognition of equity-settled share-based payment	—	—	543	—	—	543
At 31 December 2017	44,550	100,152	1,143	12,533	2,511	160,889
Loss for the year	—	—	—	—	(168)	(168)
Issue of shares upon exercise of share options	8,007	—	(924)	—	—	7,083
Dividend paid	—	—	—	(12,533)	(437)	(12,970)
Recognition of equity-settled share-based payment	—	—	11	—	—	11
At 31 December 2018	52,557	100,152	230	—	1,906	154,845

31. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 and 31 December 2017 are as follows:

Name of subsidiaries	Place and date of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly 2018	2017	Principal activities
Hi-Level (BVI) Limited	British Virgin Islands 24 September 2015	USD1	100%	100%	Investment holding
Hi-Level Technology Limited	Hong Kong 15 December 2000	HK$25,000,000	100%	100%	Sales of electronic products with/without the provision of independent design house services
Video Innovation Tech Limited	Hong Kong 24 October 2001	HK$500,000	100%	100%	Inactive
Shenzhen Hi-Level Technology Development Limited (深圳揚煜科技開發有限公司) (note)	The PRC 8 September 2003	HK$80,000,000	100%	100%	Sales of electronic products with/without the provision of independent design house services
Hi-Level (Shanghai) Technology Limited (上海揚禹電子貿易有限公司) (note)	The PRC 21 September 2007	HK$1,500,000	100%	100%	Sales of electronic products

note: These companies are limited companies established in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Dividend payable HK$'000	Bank borrowings HK$'000	Total HK$'000
At 1 January 2017	—	126,583	126,583
Financing cash flows (note)	—	26,889	26,889
Dividend declared	18,444	—	18,444
Dividend paid	(18,444)	—	(18,444)
Interest expenses	—	7,770	7,770
Foreign exchange translation	—	40	40
At 31 December 2017	—	161,282	161,282
Financing cash flows (note)	—	135,717	135,717
Dividend declared	12,970	—	12,970
Dividend paid	(12,970)	—	(12,970)
Interest expenses	—	7,657	7,657
At 31 December 2018	—	304,656	304,656

note: The cash flows represent the proceeds from and repayment of bank borrowings and the interests paid in the consolidated statement of cash flows.

Financial Summary

RESULTS

	For the year ended 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
Revenue	962,876	1,309,764	1,798,674	2,254,447	**1,855,277**
Profit before taxation	25,560	17,013	37,306	45,468	**5,537**
Income tax expense	(5,528)	(4,530)	(6,616)	(8,256)	**(1,359)**
Profit for the year	20,032	12,483	30,690	37,212	**4,178**

ASSETS AND LIABILITIES

	At 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
Total Assets	254,466	328,460	544,480	507,266	**614,645**
Total Liabilities	(172,494)	(239,931)	(433,306)	(363,447)	**(475,632)**
Net Assets and Total Equity	81,972	88,529	111,174	143,819	**139,013**