NICHE-TECH GROUP LIMITED
駿碼科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8490)

ANNUAL REPORT
2018

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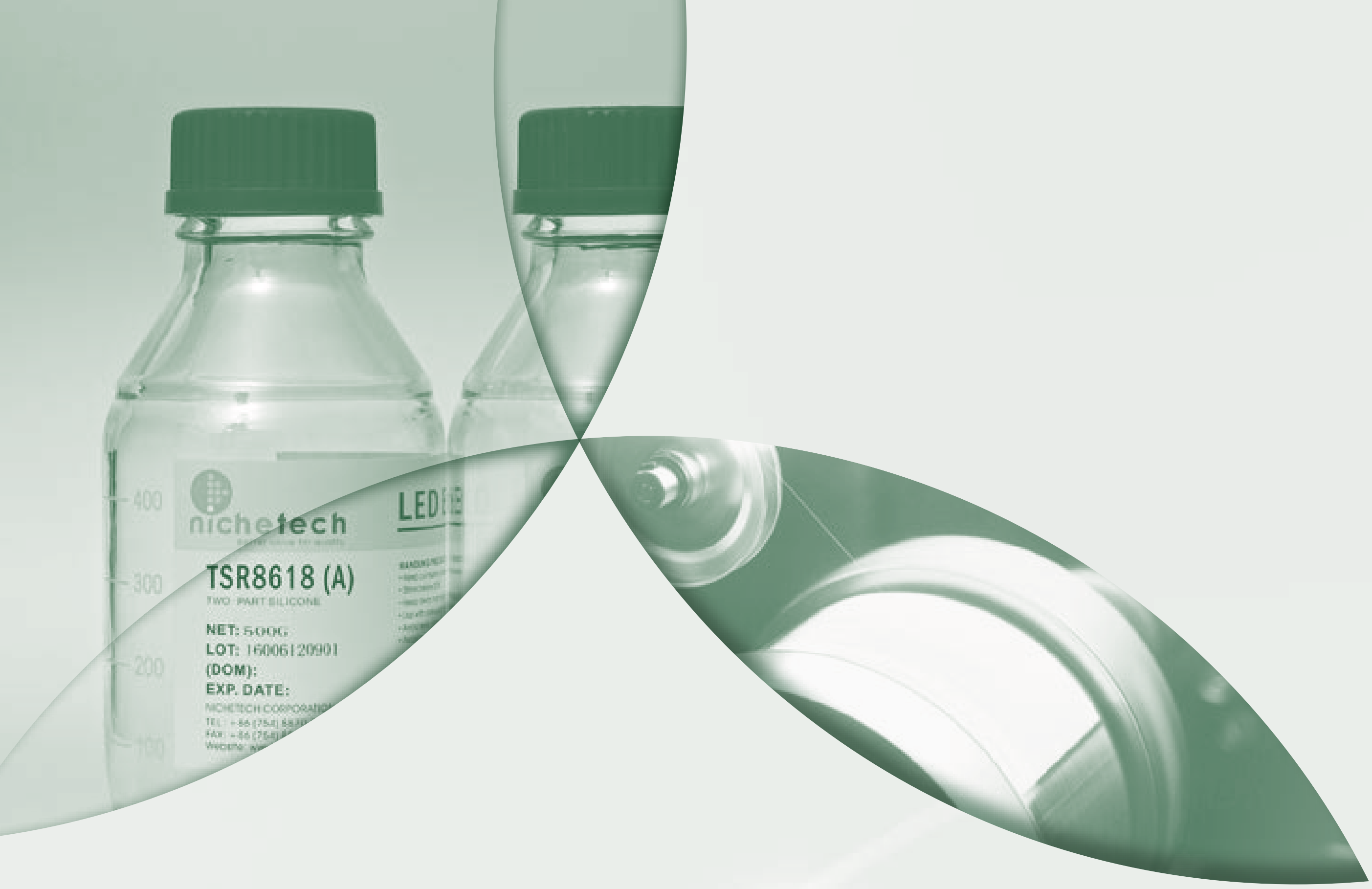
This report, for which the board (the "Board") of directors (the "Directors") of Niche-Tech Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company and its subsidiaries (together, the "Group"). 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

BOARD OF DIRECTORS

Executive Directors

Mr. Chow Bok Hin Felix *(Executive Chairman)*
Professor Chow Chun Kay Stephen
Mr. Shi Yiwu

Non-executive Director

Mr. Ma Yung King Leo

Independent Non-executive Directors

Professor Ng Wang Wai Charles
Dr. Cheng Faat Ting Gary
Mr. Tai Chun Kit

AUDIT COMMITTEE

Dr. Cheng Faat Ting Gary *(Chairman)*
Professor Ng Wang Wai Charles
Mr. Tai Chun Kit

REMUNERATION COMMITTEE

Professor Ng Wang Wai Charles *(Chairman)*
Mr. Chow Bok Hin Felix
Dr. Cheng Faat Ting Gary
Mr. Tai Chun Kit

NOMINATION COMMITTEE

Mr. Chow Bok Hin Felix *(Chairman)*
Professor Chow Chun Kay Stephen
Professor Ng Wang Wai Charles
Dr. Cheng Faat Ting Gary
Mr. Tai Chun Kit

COMPANY SECRETARY

Mr. Koo Wing Yip *(Chief Financial Officer and Company Secretary)*

AUTHORISED REPRESENTATIVES

Mr. Chow Bok Hin Felix
Mr. Koo Wing Yip

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 208, 2/F., Lakeside 1, Phase Two
Hong Kong Science Park, Pak Shek Kok
New Territories, Hong Kong

LEGAL ADVISER

Kwok Yih & Chan

COMPLIANCE ADVISER

Titan Financial Services Limited

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Dah Sing Bank Limited
Hang Seng Bank Limited
United Overseas Bank Limited

REGISTERED OFFICE

P.O. Box 1350
Clifton House, 75 Fort Street
Grand Cayman KYI-1108, Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
P.O. Box 1350
Clifton House, 75 Fort Street
Grand Cayman KYI-1108, Cayman Islands

HONG KONG SHARE REGISTRAR

Boardroom Share Registrars (HK) Limited
2103B, 21/F, 148 Electric Road
North Point, Hong Kong

WEBSITE

http://www.nichetech.com.hk

STOCK CODE

8490

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Niche-Tech Group Limited (the "Company") and its subsidiaries (collectively the "Group"), I am delighted to present the annual results of the Group for the year ended 31 December 2018.

OVERVIEW

The Group has witnessed a remarkable year in 2018, with successful listing (the "Listing") of the shares (the "Shares") in the issued share capital of the Company on GEM (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 May 2018 (the "Listing Date") and our new office launched in Hong Kong Science Park in the same year. The Listing has marked the beginning of a new chapter for the Group and opened up brand-new opportunities for the Group's future growth. These moves have increased the Group's corporate profile and are perfectly in line with its future growth strategies. With the financial support from the Listing and the improving R&D capabilities, the Group is right on the track to promote its business development and achieved stable business growth.

During the year ended 31 December 2018 (the "Review Year" or "2018"), the Group achieved a 2.2% increase in revenue to approximately HK$184.4 million from approximately HK$180.5 million for the year ended 31 December 2017 (the "Previous Year" or "2017"). The growth was mainly driven by the increase in revenue from the sale and distribution of semiconductor packaging materials. In line with the increase in revenue, the Group's gross profit increased to approximately HK$40.8 million for the Review Year from approximately HK$37.7 million in 2017, up by 8.2%.

Despite listing expenses arisen from the Listing, the Group recorded a profit attributable to owners of the Company of approximately HK$0.4 million in 2018, as compared with a profit attributable to owners of the Company of approximately HK$2.0 million in 2017. Excluding the non-recurring listing expenses, the profit attributable to owners of the Company for the Review Year was approximately HK$10.8 million.

FORWARD

Looking forward, the Group remains positive on the prospects of semiconductor packaging market in the People's Republic of China (the "PRC"). According to Frost & Sullivan Report, the substantial demand for semiconductor packaging materials in the PRC will promote the market size by revenue to reach approximately RMB109.9 million, at a CAGR of 16.6% from 2018 to 2022. Specially, over the same period, the market size of bonding wire in the PRC is forecast to grow at a CAGR of approximately 17.4%, whereas the market size of semiconductor packaging-related encapsulant in the PRC is forecast to grow at a CAGR of approximately 16.7%.

To meet the increasing demand from semiconductor packaging market, the Group will continue to implement our business plan by expanding the production capacity and enhancing the R&D capability constantly. In particular, the Group will focus on LED epoxy and silicone encapsulant, especially in the packaging of LED products for various applications. Besides, following the Group's second encapsulant production line installed in June 2018 and commenced trial run afterwards, the Group's production capacity has been enhanced subsequently.

With the carrying out of implementation plans, we remain optimistic about our future development and look forward to generate further growth and achieve more business breakthroughs. Under the favourable market environment, we will also access new business opportunities prudently, so as to maximize the return to the holders (the "Shareholders") of the Shares. The Directors believe that the Group's established position in the PRC bonding wire industry, together with its enhanced corporate profile after the Listing, would allow us to benefit from the increasing market demand and arising business opportunities, which we believe would pave the way for substantial growth in our Group's future business.

APPRECIATION

I would like to take this opportunity to express my gratitude to you and our customers, suppliers and business partners who trust and maintain faithful to the Group. I would also like to extend by sincere thanks to the management and staff of the Group for their diligence, dedication and contribution throughout the years.

Mr Chow Bok Hin, Felix
Executive Chairman and Executive Director

Hong Kong, 21 March 2019

BUSINESS REVIEW

In 2018, despite the uncertainties from the global macro-economic environment as a result of the continuing trade tension between the United States of America and the PRC, the PRC continued to be under the world's spotlight and maintained a moderate growth. As an established semiconductor packaging materials manufacturer, the Group continues to sell products directly to more than 300 customers, including renowned manufacturers of LEDs, camera modules and ICs primarily in the PRC.

During the Review Year, in line with the constant growth of semiconductor product industry, the demand for semiconductor packaging materials has witnessed a stable growth. By implementing its planned growth strategies, the Group's revenue and gross profit have achieved stable growth during the Review Year, whilst the profitability of the Group continued to be affected by the expenses incurred for the Listing.

FUTURE STRATEGIES AND PROSPECTS

Looking ahead, with the development of 5G, cloud computing, Industry 4.0 and new energy vehicles, the demand for high efficiency power electronic products is increasing rapidly. According to SEMI, global sales of semiconductor manufacturing equipment is expected to increase by 20.7% to approximately United States dollars ("US$") 71.9 billion in 2020, reaching a record high. China will become the largest market for semiconductor equipment with the demand reaching approximately US$12.5 billion in 2019. Under this favourable background, the demand for bonding wires and semiconductor packaging-related encapsulants in the PRC are expected to experience a significant growth.

To capture the opportunities generated from the growing market, the Group is strategically expanding its production capacity and acquiring more basic machineries and equipment for expansion. By the end of June 2018, the Group's second encapsulant production line had been installed and the Group's production capacity were expected to enhance further when the production line commence trial run.

In addition, the Group continues to devote R&D resources on new products and applications, upstream materials and production technologies. Judging from the industry trend, Mini-LED will be mass produced in 2019, and it is forecasted to start expanding in 2020, which is expected to drive the growth of the LED industry. In view of the market potential, the Group will put more effort into the R&D of LED epoxy, LED silicone and other encapsulant products.

As a reputable technology-focused manufacturer specialised in upstream highly advanced electronic packaging materials, the Group is well equipped with the capabilities of keeping abreast of the latest industry trend through continuous R&D capabilities. Besides, with over twelve years of application know how and field engineering, the Group always strives to remain flexible and sensitive to the changing needs of the customers and to develop the most suitable products for them. With the genes of innovation rooted in the Group, the Directors believe that it will be able to grasp the business opportunities arising from various end-markets.

Moving forward, the Group will continue to carry out its core business plans strategically, which will enable it to fully capitalise on the benefits from its Listing status, the emerging market and the arising business opportunities. The Group will continue to adopt proven business strategies to sustain and strengthen growth with new business ideas, so as to create maximum return to the Shareholders and to facilitate the Group's long-term business development.

FINANCIAL OVERVIEW

Revenue

The Group's revenue principally represents income derived from its main products, namely bonding wire and encapsulant. During the Review Year, the Group recorded a revenue of approximately HK$184.4 million, up from approximately HK$180.5 million for the Previous Year. The revenue of encapsulant products amounted to approximately HK$28.7 million, representing a significant increase of 69.8% as compared with approximately HK$16.9 million recorded in the Previous Year. The growth was mostly due to an increase of approximately HK$15.9 million in sales of LED epoxy from approximately HK$4.3 million for the Previous Year. The revenue of bonding wire products recorded a slight decrease of 5.6% to approximately HK$142.6 million from approximately HK$151.0 million for the Previous Year, mainly due to the drop of sales in high gold composition bonding wire products.

Cost of Sales and Gross Profit

The Group's cost of sales mainly comprises direct material costs, direct labor costs and manufacturing overhead. During the Review Year, the Group recorded cost of sales of approximately HK$143.6 million, which was relatively stable compared to the amount of approximately HK$142.8 million for the Previous Year.

The gross profit of the Group grew from approximately HK$37.7 million for the Previous Year to approximately HK$40.8 million for the Review Year, representing an increase of 8.2%. Gross profit margin increased to approximately 22.1% for the Review Year from approximately 20.9% for the Previous Year.

Other Income, Gains and Losses

Other income, gains and losses recorded a profit of approximately HK$3.9 million for the Review Year, as compared with the profit of approximately HK$7.3 million for the Previous Year. The drop was mainly resulted from the decrease in interest income on amount due from a related party.

During the Review Year, the Group recognized net foreign exchange gain of approximately HK$1.6 million as compared to the net foreign exchange gain of approximately HK$3.7 million recorded in the Previous Year.

Expenses

Selling and distribution expenses amounted to approximately HK$10.9 million during the Review Year as compared to the selling and distribution expenses of approximately HK$10.7 million recognized for the Previous Year.

Administrative expenses for the Review Year increased to approximately HK$19.5 million from approximately HK$14.0 million for the Previous Year, mainly as a result of the increase in (i) total staff cost by approximately HK$1.8 million due to increase in directors' remuneration, (ii) auditors' remuneration by HK$0.4 million, (iii) professional and legal fee by approximately HK$1.2 million due to increase of audit and compliance work, and (iv) rental expense by approximately HK$1.2 million and depreciation by approximately HK$1.4 million due to relocation of the headquarters and principal place of business in Hong Kong of the Group during the Review Year.

The Group recognized non-recurring listing expenses of approximately HK$10.4 million for the Review Year whilst there was approximately HK$0.8 million and approximately HK$10.7 million of non-recurring listing expenses recognized for the year ended 31 December 2016 and 31 December 2017.

Total Comprehensive (Expense) Income for the Year

Summing up the combined effects of the foregoing, profit attributable to owners of the Company for the Review Year was approximately HK$0.4 million, whereas there was a profit attributable to owners of the Company of approximately HK$2.0 million recorded for the Previous Year. The decrease in the profitability was principally attributable to increase in the administrative expenses, party offset by increase in gross profit.

Excluding the non-recurring listing expenses of approximately HK$10.4 million incurred and charged to profit and loss in 2018, the profit attributable to owners of the Company for the Review Year was approximately HK$10.8 million.

Total comprehensive expenses for the Year was approximately HK$10.0 million, whereas total comprehensive income for the Previous Year was approximately HK$8.9 million. The functional currency of the Company is Renminbi ("RMB"), whereas the consolidated financial statements are presented in Hong Kong dollars ("HK$"), 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 the 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.

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 expense items are translated at the average exchange rates for the reporting period, unless exchange rates fluctuate significantly during the reporting period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

HUMAN RESOURCES MANAGEMENT

As at 31 December 2018, the Group employed 246 full-time employees. The remuneration of employees is presented in note 9 to the consolidated financial statements. Based on the Group's remuneration policy the remuneration of employees is determined with reference to the experience and qualifications of the individual's performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

The Group finances its operations primarily through cash generated from operating activities and interest-bearing bank borrowing. The Group recorded net current assets of approximately HK$145.2 million as at 31 December 2018 (31 December 2017: approximately HK$59.0 million).

As at 31 December 2018, the Group's current ratio was approximately 6.0 (31 December 2017: approximately 2.5) and the Group's gearing ratio calculated based on the total borrowings at the end of the Review Year divided by total equity at the end of the Review Year was approximately 5.8% (31 December 2017: approximately 15.9%). The decrease of the Group's gearing ratio as at 31 December 2018 was mainly due to increase in capital and reserves by the net proceeds received from the Listing of approximately HK$83.5 million.

The Group's variable-rate bank borrowings carried interests at 2.80% over Hong Kong Interbank Offered Rate per annum. The effective interest rates were carried at 4.96% per annum and ranging from 3.72% to 3.97% per annum as at 31 December 2018 and 31 December 2017, respectively.

The Group's fixed-rate borrowings carried interests at effective rates (which were also the contracted rates) at 6.50% per annum as at 31 December 2017.

As at 31 December 2018, the Group's bank borrowings amounted to approximately HK$13.8 million were secured by corporate guarantee provided by the Company.

As at 31 December 2017, the Group's bank borrowings amounted to approximately HK$19.8 million were guaranteed by corporate guarantee provided by entities controlled by Professor Chow Chun Kay Stephen ("Professor Chow") and personal guaranties provided by (i) Professor Chow and Mr. Chow Bok Hin Felix ("Mr. Chow") and/or (ii) Mr. Ma Ah Muk ("Mr. Ma") and Mr. Ma Kiu Sang, the son of Mr. Ma. They were also secured by properties held by Professor Chow and spouse of Professor Chow and entities controlled by Professor Chow. The arrangement was ceased in May 2018 upon listing of the Company.

As at 31 December 2018, the Group has total bank facilities of HK$80 million (31 December 2017: HK$70 million).

As at 31 December 2018, the capital structure of the Group consisted of equity attributable to owners of the Company of approximately HK$237.1 million, comprised issued share capital and reserves.

The Shares were listed on the GEM of the Stock Exchange on 30 May 2018. There has been no change in the capital structure of the Group since then.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions and disposals of subsidiaries and associated companies for the Review Year.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group's income, cost of sales, administrative expenses, investment and borrowings are mainly denominated in US$, HK$ and RMB. Fluctuations of the exchange rates of RMB could affect the operating costs of the Group. Currencies other than RMB were relatively stable during the Review Year. The Group currently does not have a foreign currency hedging policy. However, the management will continue to monitor foreign exchange exposure and will take prudence measure to minimize the currency translation risk. The Group will consider hedging significant foreign currency exposure should the need arise.

CHARGE ON ASSETS

As at 31 December 2018, there was no significant pledge on the Group's assets (31 December 2017: Nil).

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (31 December 2017: Nil).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities or guarantees.

SEGMENT INFORMATION

Segment information for the Group is presented as disclosed on note 5 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSAL

During the Review Year, the Group has not made any significant investments or material acquisitions and disposal of subsidiaries.

EVENT AFTER THE REPORTING PERIOD

There is no significant event after the reporting period for the Group to the date of this report.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following table is a comparison between the Group's business objectives as set out in the prospectus dated 17 May 2018 regarding the Listing (the "Prospectus") and the Group's actual business progress for the period from the Listing Date to 31 December 2018.

Business objectives	Actual business progress up to 31 December 2018
Expand production capacity and upgrade manufacturing facilities	
– Acquire machineries and equipment and upgrade manufacturing facilities for new production lines	The Group had installed the second additional encapsulant production line in the Review Year, which was commenced trial run during the six months ended 31 December 2018.
– Acquire machineries and equipment for quality control	The Group had introduced parts of equipment to enhance the quality control over the production process of bonding wire for the Review Year.
Devote R&D resources	
– Acquire machineries and equipment for R&D enhancement	The Group had purchased parts of machineries and equipment for the improvement of existing R&D facilities for the Review Year.
– Engage external consultants for R&D projects	The Group had engaged an assistant professor from Anhui University of Technology as our R&D consultant to assist in our R&D activities for the new encapsulant R&D project.
Increase sales and marketing activities	The Group attended Guangzhou International Lighting Exhibition organised by the China Semiconductor Industry Association in June 2018. The Group also engaged a personnel relation advisor to perform branding and digital marketing work.
General working capital	The Group had relocated its headquarter and principal place of business in Hong Kong to Hong Kong Science Park.

The total amount of proceed from the Listing used in 2018 exceeded our forecast which was mainly reflected in the following two aspects:

a) Expand production capacity and upgrade manufacturing facilities; and

b) Devote R&D resources.

As the pace of the Group's promotion for LED epoxy products accelerated, the Group urgently needed to purchase the necessary R&D equipment as mentioned in Prospectus in advance for the current and the relevant projects in the future.

The Directors believe that the introduction of this series of advanced R&D equipment would be of great help to the improvement of the encapsulant products' quality and performance. As it turned out, the sales on LED epoxy products improved significantly in the second half of 2018, even exceeding the sale amount in profit forecast made by the Directors.

Moreover, the Group historically operated the existing bonding wire production facilities at an average utilisation rate of approximately 79.3%, 99.6% and 96.8% for 2015, 2016 and 2017, respectively. Since the second half of 2018, customers' demand for the bonding wire had gradually increased, and the Group had to add necessary equipment such as extremely fine drawing machine being the capacity bottleneck to meet the increasing orders.

In addition, the Group added additional security facilities for bonding wire production line in advance to ensure the safety of the property, especially the precious metals.

USE OF PROCEEDS FROM THE LISTING

The Shares were successfully listed on GEM of the Stock Exchange on the Listing Date. The net proceeds from the Listing received by the Company were approximately HK$83.5 million (after deduction of listing expenses). The net proceeds are intended to be used in accordance with the proposed implementation plans as disclosed under the section headed "Statement of Business Objectives and Use of Proceeds" in the Prospectus. During period from the Listing Date to 31 December 2018, the net proceeds had been utilised as follows:

	Actual net proceeds from the Listing *HK$ million*	Amount utilised up to 31 December 2018 *HK$ million*	Balance as at 31 December 2018 *HK$ million*
Expand production capacity and upgrade manufacturing facilities			
– Acquire machineries and equipment and upgrade manufacturing facilities for new production lines	**41.9**	**7.0**	**34.9**
– Acquire machineries and equipment for quality control	**3.4**	**1.9**	**1.5**
Devote R&D resources			
– Acquire machineries and equipment for R&D enhancement	**19.5**	**4.4**	**15.1**
– Engage external consultants for R&D projects	**5.9**	**0.1**	**5.8**
Increase sales and marketing activities	**5.9**	**0.5**	**5.4**
General working capital	**6.9**	**1.0**	**5.9**
Total	**83.5**	**14.9**	**68.6**

As at 31 December 2018, approximately HK$14.9 million out of the net proceeds from the Listing had been used. The majority of the unused net proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong.

EXECUTIVE DIRECTORS

Mr. CHOW Bok Hin Felix (周博軒), aged 37, is the co-founder of the Group, an executive Director and the executive chairman on 21 February 2017 of the Board. He is primarily responsible for the overall management, strategic planning, operations and development of the Group. Mr. Chow is the son of Professor Chow, an executive Director.

Mr. Chow has over 16 years of experience in the electronics materials industry. He founded the Group in April 2006 and appointed as a director of Niche-Tech Kaiser (Shantou) Limited ("Niche-Tech Shantou"). Mr. Chow was listed as one of the 200 Most Promising Young Chiu Chow Entrepreneurs in 2012. He was appointed as a Standing Committee member of the Shantou Provincial Committee of the Chinese People's Political Consultative Conference in 2012, and a Council Member of the Hong Kong Productivity Council in 2015, respectively.

Mr. Chow obtained a Bachelor of Arts degree from the University of Southern California in the United States in May 2011. He also furthered his studies by completing an Entrepreneurial Masters Programme hosted by the Massachusetts Institute of Technology Enterprise Forum and Entrepreneurs' Organisation in May 2009.

Professor CHOW Chun Kay Stephen (周振基), *GBS, SBS, BBS, JP*, aged 64, is the co-founder of the Group and an executive Director on 21 February 2017. He is primarily responsible for the overall strategic planning and development of the Group. Professor Chow is the father of Mr. Chow, an executive Director and the executive chairman of the Board.

Professor Chow has over 37 years of experience in the electronics materials industry. He founded the Group in April 2006 and was appointed as a director of Niche-Tech Shantou. He is also the director of Niche-Tech Holdings Limited and Chows Electronics (HK) Limited. Professor Chow had served as the president of the Chiu Chow Chamber of Commerce from 2012 to 2014, and the chairman of the Tung Wah Group of Hospitals from 2001 to 2002. Professor Chow has also been the council chairman of the Hong Kong Academy for Performing Arts since 2016.

Professor Chow was awarded the Gold Bauhinia Star in 2017, the Silver Bauhinia Star in 2008 and the Bronze Bauhinia Star in 2002. He was also appointed Justice of the Peace in 2004.

Professor Chow obtained a Doctor of Philosophy degree from the University of Hong Kong in December 2003. He also obtained a bachelor's degree in management and a master's degree in business administration from Golden Gate University in the United States in June 1979 and June 1981, respectively.

Mr. SHI Yiwu (石逸武), aged 36, is an executive Director on 6 September 2017 and the general manager of Niche-Tech Shantou. He is primarily responsible for the overall management, sales and marketing of our production factory in Shantou.

Mr. Shi has over 12 years of experience in the electronics materials industry. He joined the Group as a R&D project supervisor of Niche-Tech Shantou in May 2007. He was then promoted to deputy manager of the R&D department of Niche-Tech Shantou in February 2008 and R&D director of the chemical department of Niche-Tech Shantou in December 2014. Mr. Shi was further promoted to the general manager of Niche-Tech Shantou in May 2016 and has been holding this position since then. Prior to joining the Group, Mr. Shi had worked as a processing engineer in Shengyi Technology Co., Ltd. from July 2005 to January 2007.

Mr. Shi graduated from Guangdong University of Technology in the PRC with a bachelor's degree in polymer material and engineering in July 2005.

NON-EXECUTIVE DIRECTOR

Mr. MA Yung King Leo (馬雍景) ("Mr. Leo Ma"), with former name Ma Hiu Chun Elton (馬曉晉), aged 30, is a non-executive Director on 6 September 2017. He is primarily responsible for the overall strategic planning of the Group. He is a grandson of Mr. Ma Ah Muk (馬亞木), a substantial shareholder of the Company.

Mr. Leo Ma first joined Koon Wing Motors Limited, the largest operator of green minibuses in Hong Kong, in January 2011, where he was responsible for minibus fleet management. He left Koon Wing Motors Limited in March 2012 and re-joined the company in October 2016 and is currently its director. He co-founded Trinity Insurance (International) Agency Limited, a company principally engaged in the provision of insurance agency services in Hong Kong, in December 2011. He has also been a director of Corporate Icon Limited, a company principally engaged in property holding since October 2011. Between May 2013 and May 2014, Mr. Leo Ma had worked as a product development engineer in Niche-Tech (Hong Kong) Limited.

Mr. Leo Ma obtained a Bachelor of Science in Mechanical Engineering in May 2010 and a Master of Science in Mechanical Engineering in December 2010 from Carnegie Mellon University in the United States.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor NG Wang Wai Charles (吳宏偉), aged 57, is an independent non-executive Director on 8 May 2018. He is primarily responsible for providing independent advice to the Board.

Professor Ng has been a chair professor of Civil and Environmental Engineering since 2011 and the associate vice-president for Research and Graduate Studies in The Hong Kong University of Science and Technology ("HKUST") since 2014. After obtaining his Doctorate of Philosophy degree from the University of Bristol in the United Kingdom in January 1993, he joined the University of Cambridge as a post-doctoral research associate between 1993 and 1995. He returned to Hong Kong joining HKUST as an assistant professor in 1995 and became a chair professor in 2011.

Professor Ng was elected an overseas fellow from Churchill College of the University of Cambridge in 2005 and was elected Changjiang Scholar (chair professor in geotechnical engineering) by the Ministry of Education of the PRC in 2010. He was elected as a fellow of the Hong Kong Academy of Engineering Sciences in November 2008. Professor Ng received the R. M. Quigley Award from the Canadian Geotechnical Society in 2007 and 2012, the 2015 Scientific Technological Advancement Second Class Award* (中國國家2015年度科技進步獎二等獎) from the Ministry of Science and Technology of the PRC and the 2013 Scientific Advancement Technological First Class Award from the Ministry of Education of the PRC* (中國教育部2013年度科技進步獎一等獎).

Dr. CHENG Faat Ting Gary (鄭發丁), *CPA*, aged 51, is an independent non-executive Director on 8 May 2018. He is primarily responsible for providing independent advice to the Board.

Dr. Cheng is the founder and managing director of Gary Cheng CPA Limited which was established in 1998. Dr. Cheng has over 23 years of experience in financial reporting, business advisory, auditing, accounting, tax investigation and liquidation. He is the co-owner and vice president of Worldlion Group, which has been engaged in international trading, property development and hotel business since 1998. He had also worked in the auditing department in PricewaterhouseCoopers from 1996 to 1997. Dr. Cheng has been an independent non-executive director and the chairman of the audit committee, remuneration committee and nomination committee of Smartac Group China Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 00395). He is also a founding member and the president of the Eminence Society of the City University of Hong Kong from 2017 to 2019.

Dr. Cheng obtained a Doctorate of Business Administration from the City University of Hong Kong in February 2011. Dr. Cheng is a Fellow Certified Public Accountant in both Hong Kong and the United States and a Certified Tax Advisor of the Taxation Institute of Hong Kong. Dr. Cheng received a bachelor's degree in accounting and a master's degree in business administration from Southern Illinois University in the United States in December 1992 and August 1994, respectively.

Mr. TAI Chun Kit (戴進傑), aged 36, is an independent non-executive Director on 8 May 2018. He is primarily responsible for providing independent advice to the Board.

Mr. Tai has extensive experience in marketing retail management and brand development. Mr. Tai has been an executive director of Hong Kong Food Investment Holdings Limited ("HKFIHL"), a company listed on the Main Board of the Stock Exchange (stock code: 60), since 2013. He is responsible for the new business planning and development of HKFIHL. Mr. Tai has also been the managing director of the business development department of Four Seas Mercantile Holdings Limited ("FSMHL"), a company listed on the Main Board of the Stock Exchange (stock code: 374), since 2014 and was appointed as the executive director since 1 December 2017. FSMHL is a food enterprise with trading, manufacturing and retailing of snack foods and drinks, and restaurants in Hong Kong and the PRC. Mr. Tai joined FSMHL in 2004 and has been the general manager of Fancy Talent Limited, which is a wholly owned subsidiary of FSMHL and one of the leading retail shop chains for confectionery products in Hong Kong, since 2007.

Mr. Tai obtained a Bachelor of Business Administration degree from the City University of Hong Kong in July 2004.

SENIOR MANAGEMENT

Mr. KOO Wing Yip (古永業), *CPA*, aged 42, is the chief financial officer on 1 April 2017 and company secretary of the Group on 11 May 2017. Mr. Koo joined the Group in April 2017 and is responsible for overseeing the overall financial operation and company secretarial matter of the Group.

Mr. Koo has over 20 years of experience in auditing and accounting. Mr. Koo graduated with a higher diploma in accountancy from the City University of Hong Kong in November 1998 and obtained a bachelor of science degree in accounting from the University of Hull in the United Kingdom in January 2010. He has been a member of the Hong Kong Institute of Certified Public Accountants since 2010 and Association of Chartered Certified Accountants since 2018.

Mr. LUO Yongxiang (羅永祥), aged 33, is the R&D director of the Group. Mr. Luo joined the Group in 7 September 2009. He is responsible for overseeing the R&D of new chemical products. From 2009 to 2016, Mr. Luo was responsible for the examination of engineering projects in the chemical department.

Mr. Luo has over nine years of experience in researching on new micro-electronic materials with high attainments, especially epoxy, silicone and acrylate. Mr. Luo has also made publications including Chinese Journal of Scientific and Technical Periodicals in 2016 and Electronics and Packaging, a magazine published in Wuxi City, Jiangsu Province in 2012 and 2013.

Mr. Luo obtained a bachelor's degree in engineering from South China University of Technology in July 2009. He also started studying a master's degree in chemical engineering in March 2013 at Shantou University in the PRC.

Mr. HUANG Peng (黃鵬), aged 39, is the production director of the Group. Mr. Huang joined the Group in 10 February 2011. He is responsible for the production and information management of the Group.

Mr. Huang has over eight years of experience in researching on the informationisation, standardisation and production of advanced enterprise management systems. Prior to joining the Group, Mr. Huang had worked as an administrative personnel responsible for production management in China Circuit Technology (Shantou) Corporation, a subsidiary of Guangdong Goworld Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000823), from 2004 to 2011.

Mr. Huang graduated from Huazhong University of Science and Technology in the PRC with a bachelor's degree in administration (online education) in January 2014.

Mr. ZOU Jian (鄒劍), aged 34, is the quality manager of the Group. Mr. Zou joined the Group in 4 April 2016. He is responsible for the quality control and supply chain management of the Group.

Mr. Zou has over nine years of experience in the research of quality system standardisation. Before joining the Group, Mr. Zou had worked as a quality customer engineer responsible for quality management from 2010 to 2016 in Shantou Goworld Display Co., Ltd., a subsidiary of Guangdong Goworld Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000823). In 2016, Mr. Zou was qualified as an internal auditor of ISO9001 and ISO14001 by SGS Academy.

Mr. Zou obtained a Bachelor of Engineering degree from Guangdong Ocean University in the PRC in June 2008.

COMPANY SECRETARY

Mr. KOO Wing Yip is the company secretary of the Company on 11 May 2017. Mr. Koo is ordinarily resident in Hong Kong. Please refer to the paragraphs headed "Biographies of Director and Senior Management" above of his qualifications and experience.

For the year ended 31 December 2018, the company secretary has complied with the GEM Listing Rules by taking not less than 15 hours of relevant professional training.

COMPLIANCE OFFICER

Mr. SHI Yiwu is the compliance officer of the Company. Please refer to the paragraphs headed "Biographies of Director and Senior Management" above of his qualifications and experience.

The Board is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company places high value on the corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the Shareholders.

A.2 and A.2.1 of the CG Code stipulates that there should be a clear division of the management of the Board and the day-to-day management of the business. The Group has not appointed the chief executive officer. Day-to-day management of the business of the Group are carried out by the senior management and monitored by the executive Directors, while prior approvals by all executive Directors are required for all strategic decisions which are also considered and confirmed in formal Board meeting. The balance of power and authority of the Company is ensured by the operations of the Board which comprises experienced and competent individuals, with three of them being independent non-executive Directors. The Group believes that the existing management structure and decision making procedures are adequate and in the best interest of the Group to cope with the ever-changing economic environment.

As the Company was only listed on 30 May 2018, the Board convened only two Board meetings during the period from the Listing Date to 31 December 2018 to consider and approve the unaudited interim results and the unaudited third quarterly results of the Group. The Company expects to convene at least four regular meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory requirements and regulations and the CG Code and align with the latest developments.

BOARD OF DIRECTORS

Board Composition

The Board of the Company currently comprises seven members, of which three are executive Directors, Mr. Chow (executive chairman), Professor Chow and Mr. Shi Yiwu and three are independent non-executive Directors namely Professor Ng Wang Wai Charles, Mr. Tai Chun Kit and Dr. Cheng Faat Ting Gary. Mr. Leo Ma is a non-executive Director.

Each of the Directors' respective biographical details is set out in the section headed "Biographies of the Directors and Senior Management" of this Annual Report. Save as disclosed in the aforesaid section, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Directors or any chief executive. The Board had three independent non-executive Directors with one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise at all times during the Year. None of the members of the Board is related to one another.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

In view of Mr. Chow, being the founder of the Group and his experience and his roles in the Group, the Board considers it beneficial to the business prospect and operational efficiency of the Group that Mr. Chow acts as the chairman of the Board. The Company has not appointed any chief executive officer. Day-to-day management of the business of the Group are carried out by the senior management and monitored by the executive Directors, while prior approvals by all executive Directors are required for all strategic decisions which are also considered and confirmed in formal Board meeting. The Group believes that the existing management structure and decision making procedures are adequate and in the best interest of the Group to cope with the ever-changing economic environment.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year and such letter of appointment may be terminated by either party giving at least three months' notice in writing. Also, the independent non-executive Directors are subject to re-election on retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Rule 5.09 of the Rules ("GEM Listing Rules") Governing the Listing of Securities on GEM. The Company considers all independent non-executive Directors namely Professor Ng Wang Wai Charles, Mr. Tai Chun Kit and Dr. Cheng Faat Ting Gary to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the year ended 31 December 2018.

ROLE AND FUNCTION OF THE BOARD

The Board is responsible for overall management of the Company's business, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

DELEGATION BY THE BOARD

The Board reserves for its decisions on all major matters of the Company, including the approval and monitoring of major policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and senior management. The delegated functions and work tasks are reviewed from time to time. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgment to the Board.

BOARD DIVERSITY POLICY

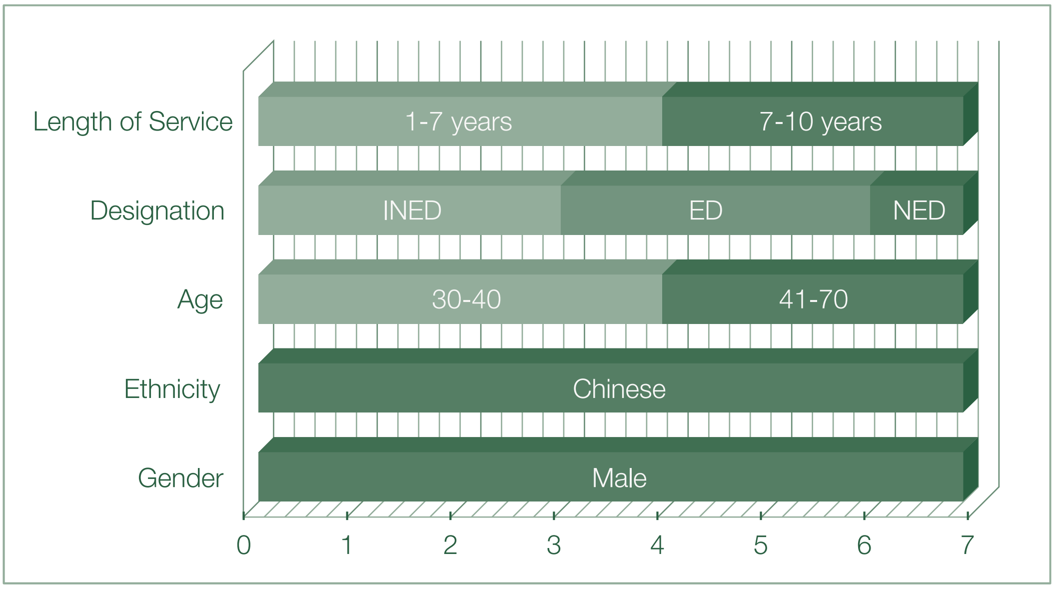
The Company has adopted a board diversity policy on 8 May 2018 which sets out in the CG Code the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

The Board composition are summarized as follows:



PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

In compliance with the code provision A.6.5 of the CG Code, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Directors had provided the relevant record to the Company for the Year.

The Company is committed in arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the GEM Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All the Directors also understand the importance of continuous professional development and are committed to participate in any suitable training to develop and refresh their knowledge and skills.

BOARD MEETINGS

Notice of at least 14 days have been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to all Directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of Board meetings and meetings of Board committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to Board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

NUMBER OF MEETINGS AND ATTENDANCE RECORDS

Directors are provided with relevant information to make informed decisions. The attendance of Directors at the Board meetings and the Board committees' meetings is set out in the table below:

Meetings attended/Eligible to attend

Name of Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Executive Directors					
Mr. Chow	2/2	N/A	N/A	N/A	N/A
Professor Chow	2/2	N/A	N/A	N/A	N/A
Mr. Shi Yiwu	2/2	N/A	N/A	N/A	N/A
Non-executive Director					
Mr. Leo Ma	2/2	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Professor Ng Wang Wai Charles	2/2	2/2	N/A	N/A	N/A
Dr. Cheng Faat Ting Gary	2/2	2/2	N/A	N/A	N/A
Mr. Tai Chun Kit	2/2	2/2	N/A	N/A	N/A

The Company have been listed on GEM on 30 May 2018, two Board meeting and Audit Committee meeting was held during the year ended 31 December 2018. As the Company was only listed on 30 May 2018, the Board convened only two Board meetings during the period from the Listing Date to 31 December 2018 to consider and approve the unaudited interim results and the unaudited third quarterly results of the Group. The Company expects to convene at least four regular meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code.

BOARD COMMITTEE

Audit Committee

The Company established an audit committee (the "Audit Committee") on 8 May 2018 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules and C.3.3 and C.3.7 of the CG Code. The terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Audit Committee mainly include reviewing and approving of the Group's financial reporting process and internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. As at 31 December 2018, the Audit Committee consists of three members, namely Professor Ng Wang Wai Charles, Mr. Tai Chun Kit and Dr. Cheng Faat Ting Gary. Dr. Cheng Faat Ting Gary, who processes the appropriate professional qualifications are required under Rules 5.05(2) and 5.29 of the GEM Listing Rules, is the chairman of the Audit Committee.

During the year ended 31 December 2018, two meetings of Audit Committee were held for, inter alia, reviewing the Group's quarterly and interim results, the financial reporting and compliance procedures, the effectiveness of the risk management and internal control systems, considering the re-election of auditor of the Company and discussing with the auditors about the audit plan.

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 8 May 2018 with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and the CG Code. The terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Remuneration Committee include formulating the remuneration policy, reviewing and determining the terms of the remuneration packages of the Directors and senior management of the Group, and reviewing and approving performance-based remuneration with reference to corporate goals and objective resolved by the Board time to time. As at 31 December 2018, the Remuneration Committee consists of an executive Director and three independent non-executive Director, being Mr. Chow, Dr. Cheng Faat Ting Gary, Mr. Tai Chun Kit and Professor Ng Wang Wai Charles. Professor Ng Wang Wai Charles is the chairman of the Remuneration Committee. Details of the remuneration of Directors are set out in note 10 to the consolidated financial statements.

As the Remuneration Committee was only set up on 8 May 2018, no meeting was held by the Remuneration Committee during the period from the Listing Date to 31 December 2018. On 21 March 2019, the Remuneration Committee met to review the remuneration policy and the structure of the remuneration.

Nomination Committee

The Company established a nomination committee (the "Nomination Committee") on 8 May 2018 with written terms of reference in compliance with paragraph A.5 of the CG Code. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Nomination Committee include formulating our nomination policy and making recommendations to any proposed changes to the Board. As at 31 December 2018, the Nomination Committee consists of two executive Directors and three independent non-executive Directors, being Professor Chow, Mr. Chow, Dr. Cheng Faat Ting Gary, Mr. Tai Chun Kit and Professor Ng Wang Wai Charles. Mr. Chow is the chairman of the Nomination Committee.

When making recommendations regarding the appointment of any proposed candidate to the Board or reappointment 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:–

(a) Reputation for integrity;

(b) Accomplishment, experience and reputation in the business and other relevant sectors relate to the Company and/or its subsidiaries;

(c) Commitment in respect of sufficient time and attention to the Company's business;

(d) Diversity in all aspects, including but not limited to gender, age, cultural/educational and professional background, skills, knowledge and experience;

(e) The ability to assist and support management and make significant contributions to the Company's success;

(f) Compliance with the criteria of independence as prescribed under Rule 5.09 of the GEM Listing Rules for the appointment of an independent non-executive Director; and

(g) Any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

During the year ended 31 December 2018, no new Director was appointed.

As the Nomination Committee was only set up on 8 May 2018, no meeting was held by the Nomination Committee during the period from the Listing Date to 31 December 2018. On 21 March 2019, the Nomination Committee met to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to review the board diversity policy to ensure its effectiveness and consider that the Group has achieved the objectives of the board diversity policy during the period from the Listing Date to 31 December 2018, and to consider the qualifications of the retiring Directors standing for election at the forthcoming annual general meeting of the Company.

Corporate Governance Function

All members of the Board are responsible for performing the corporate governance functions. The terms of reference of corporate governance functions was adopted by the Board and is in compliance with paragraph D.3.1 of the CG Code. The Board will review the policy of the corporate governance and the corporate governance report of the Company annually.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors (the "Code of Conduct") on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Required Standard Dealings"). The Company had also made specific enquiry of all the Directors and each of them was in compliance with the Code of Conduct and Required Standard Dealings during the Review Year. Further, the Company was not aware of any non-compliance with the Required Standard Dealings regarding securities transactions by the Directors for the Review Year.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, apart from the provisions of annual audit services, Deloitte Touche Tohmatsu ("Deloitte"), was also the reporting accountant of the Company in relation to the Listing of the Company. During the year ended 31 December 2018, the total fees paid/payable in respect of audit services and non-audit services provided by Deloitte are set out below:

Services rendered to the Group	Fees paid and payable *HK$*
Audit services:	
2018 annual audit	700,000
Non-audit services:	
Review the interim financial information of the Group for six months ended 30 June 2018	300,000
Acting as reporting accountant in relation to the Listing of the Company	248,000
	1,248,000

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has the overall responsibility to ensure that sound and effective risk management and internal controls are maintained, while the senior management is charged with the responsibility to design and implement an internal controls system to manage risks. A sound system of risk management and internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

Internal Controls

The Group has maintained internal control policies to provide sufficient guidelines for the management staff and employees of the Company to work efficiently under a standardized work procedure. The internal control policies cover various operating processes from risk assessment, financial reporting, cost management, pricing for projects, staff recruitment and training to IT system control. The internal control system is generally overseen by the executive Directors and senior management of the Group and is reviewed at least once a year. During the year ended 31 December 2018, the Group has engaged an independent staff to review the effectiveness of the Group's internal control measures. The Board concluded that the Group has maintained effective internal control measures to ensure that the operations of the Group would be in full compliance with the CG Code and the applicable laws and regulations. The Group has dedicated internal audit function who reviews the effectiveness of the risk management and internal control systems from time to time in order to ensure that they meet with the dynamic and ever changing business environment.

The Board is committed to implementing an effective and sound internal control system to safeguard the interest of the Shareholders and the Group's assets and the internal control systems would be reviewed annually. The Board considers the Group's risk management and internal control system are effective and adequate.

Risk Management

In the course of conducting the business of the Group, the Company is exposed to various types of risks, including business risks, financial risks, operation and other risks. The Board is ultimately responsible for the risk management of the Group and the risk management system is reviewed at least once a year. The objectives of the risk management process are to ensure that the operations of the Group would be in full compliance with the CG Code and the applicable laws and regulations enhance the governance and corporate management processes as well as to safeguard the Group against unacceptable levels of risks and losses.

The risk management process of the Group would involve, among others, (i) a quarterly risk identification and analysis exercise which involves assessment of the consequence and likelihood of risks and the development of risk management plans for mitigating such risks; and (ii) a quarterly review of the implementation of the risk management plans and fine tune when necessary.

During the year ended 31 December 2018, the risk management process of the Group has been reviewed, and the Board considered that process was effective and adequate for the year ended 31 December 2018.

DISSEMINATION OF INSIDE INFORMATION

The Group is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Group has adopted a Policy on Disclosure of inside information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and ensure that the consolidated financial statements are prepared in accordance with statutory requirements and applicable accounting standards. In preparing the consolidated financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

The statement of external auditor of the Company, Deloitte, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report.

INVESTOR RELATIONS AND COMMUNICATION

The Board recognizes the importance of good communications with all Shareholders. The Company encourages two-way communications with both its institutional and private investors. A shareholder's communication policy was adopted by the Board at the Board meeting held on 8 May 2018 aiming at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. The annual general meeting provides a valuable forum for direct communication between the Board and the Shareholders. The chairman of the Board as well as Chairmen of the Board Committees together with the auditor will present to answer Shareholders' questions. The circulars of the annual general meeting are distributed to all Shareholders at least 21 clear days before the meeting. Separate resolutions are proposed at general meetings on each separate issue and voting of which are taken by poll pursuant to the GEM Listing Rules. Any results of the poll are published on both the GEM website and the Company's website. All corporate communication with Shareholders will be posted on the Company's website for Shareholders' information.

During the year ended 31 December 2018, no annual general meeting was held.

The Company keeps on promoting investor relations and enhancing communication with the existing Shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published on the websites of the Company and the Stock Exchange its Memorandum and Articles of Association. The Memorandum and Articles of Association of the Company have been amended and restated, with effect from the Listing Date.

COMPANY SECRETARY

The company secretary of the Company, Mr. KOO Wing Yip, was appointed on 11 May 2017. Mr. Koo is responsible for facilitating the Board meeting process, as well as communications among Board members, with Shareholders and the management of the Company. For the year ended 31 December 2018, Mr. Koo has undertaken no less than 15 hours of relevant professional training in compliance with Rule 5.15 of the GEM Listing Rules.

The biographic of Mr. Koo is set out in the section headed "Biographies Details of the Directors and Senior Management" of this report.

SHAREHOLDERS' RIGHT

As one of the measures to safeguard Shareholders' interest and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. All resolutions put forward at Shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the GEM website and the Company's website after the relevant Shareholders' meeting. Extraordinary general meeting may be convened by the Board on requisition of Shareholders holding not less than one-tenth of the paid up capital of the Company or by such Shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to article 64 of the Articles of Association of the Company. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's principal place of business in Hong Kong.

The Board is pleased to present its Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements. The Group is principally engaged in the development, manufacture and sales of semiconductor packaging materials.

RESULTS AND DIVIDENDS

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 50.

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2018 (31 December 2017: Nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting is scheduled to be held on Thursday, 27 June 2019 (the "AGM"). For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 24 June 2019 to Thursday, 27 June 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to attend and vote at the AGM, unregistered holders of Shares should ensure that all Share transfer documents accompanied by the relevant Share certificates must be lodged with the share registrar of the Company in Hong Kong, Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Friday, 21 June 2019.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements, is set out on page 116 in the Annual Report. This summary does not form part of the audited consolidated financial statements.

REVENUE AND SEGMENT INFORMATION

The revenue and segment information for the year ended 31 December 2018 are set out in note 5 to the consolidated financial statements.

PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS SCHEMES

Details of the Company's share capital and share option schemes are set out in notes 24 and 33 to the consolidated financial statements respectively.

RESERVES

Details of movements in the reserves of the Group and the Company are set out in consolidated statement of changes in equity and note 35 to the consolidated financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2018 are set out in note 32 to the consolidated financial statements. To the best knowledge of the Directors, none of these related party transactions constitutes connected transactions that need to be disclosed under the GEM Listing Rules.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$196.8 million. This includes the Company's Share premium in the amount of approximately HK$128.1 million at 31 December 2018, which may be distributable to the Shareholder provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 50.0% (2017: 52.7%) of the Group's total sales for the year and the largest customer included therein amounted to approximately 30.1% (2017: 28.1%).

Purchases from the Group's five largest suppliers accounted for approximately 79.9% (2017: 80.9%) of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 36.1% (2017: 37.1%).

None of the Directors, or any of their associates or any Shareholders which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers.

BUSINESS REVIEW

A review of the business of the Group as well as discussion and analysis of the Group's performance during the year under review and the material factors underlying its results and financial position can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on pages 3 to 4 and pages 5 to 10, respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Risk relating to the Industry

As the Group is a manufacturer of semi-finished goods to customers which are generally producers of finished products, the demand for the Group's products is therefore largely dependent on demand from the downstream industries of the Group. The products of the Group are typically used to serve end-customers in, among others, the LED and IC industries. The performance and growth of such industries depend, to a certain extent on global economic and market conditions. During period of slow economic growth or recession and trade war, consumer spending may drop as they are less willing to spend money. Adverse present and future economic conditions may affect demand of the products of the Group from downstream customers and the Group may not be able to grow at the pace it anticipated or at all. If any of the above occurs, the business, financial conditions and results of operations of the Group may be materially and adversely affected.

Risk relating to concentration of suppliers

The Group are dependent upon a small number of suppliers for raw materials that it uses in manufacturing its products. The largest and top five suppliers of the Group accounted for approximately 36.1% and 79.8% of our total purchase (2017: 37.1% and 80.9% respectively). There is no assurance that the business relationship of the Group with its supplies will continue in the future. To reduce the risk, the Group has expanded its supplier base for high quality suppliers in which it has achieved an improvement. The Group has also developed its own products which produced through reliable subcontractors to secure sources of products supply.

Risks relating to conducting business in the PRC

The Group's results, financial condition and prospects are to a significant degree subject to the economic, political and legal developments of the PRC, as substantial part of its assets and business operation of the Group are located in PRC. The economic, political and social conditions, as well as government policies, including taxation policies, could affect the business of the Group. To manage the risk, the Board has appointed certain senior management to closely monitor economic, political, legal, institutional and social developments in the PRC, and maintained conservative treasury policy in cash management, such as holding cash in Hong Kong.

Risk relating to products' competitiveness

The semiconductor packaging materials industry and its downstream industries have historically been characterised by rapid technological changes and evolving industry standards. The Group's competitive position will depend on a significant extent on its ability to develop packaging materials that are comparable to or better than those produced by its competitors. Since the Group may not be able to accurately predict what technologies or product will be required by its customers in the future, the Group may also experience obsolescence relating to its products, production machinery and equipment and production methods due to changes in semiconductor packaging materials technologies. If the Group fails to respond timely to the changes in the industry and its customers' needs and fail to adjust its production machinery and equipment promptly and cost effectively, the Group may invest in substantial amount in the new production machinery and equipment that do not lead to significant revenue. If any of the above occurs, the Group's business, financial conditions and results of operation will be materially and adversely affected.

Financial risks

Details of financial risks are set out in note 29 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

The Group also commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as re-deployment of office furniture as far as possible, promotion on the use of recycled paper for printing and copying, double-sided printing and copying, reduction on energy consumption by switching off idle lightings, air conditioning and electrical appliances.

The Environmental, Social and Governance Report of the Company containing the details of the environmental, social and governance performance of the Group is contained on pages 35 to 45 of this Annual Report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers, customers and other stakeholders to meet its immediate and long-term goals.

During the Review Year, there were no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

DIRECTORS

The Directors during the Review Year and up to the date of this Annual Report are as follows:

Executive Directors

Mr. Chow Bok Hin Felix *(Executive Chairman)*
Professor Chow Chun Kay Stephen
Mr. Shi Yiwu

Non-executive Director

Mr. Ma Yung King Leo

Independent Non-executive Directors

Professor Ng Wang Wai Charles
Dr. Cheng Faat Ting Gary
Mr. Tai Chun Kit

Pursuant to the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting.

Pursuant to article 112 of the Articles of Association, Mr. Shi Yiwu and Mr. Ma Yung King Leo shall hold office as Directors until the AGM and, being eligible, offer themselves for re-election at the AGM.

Pursuant to article 108 of the Articles of Association, Mr. Chow and Professor Chow shall retire from office as Directors by rotation at the AGM and, being eligible, offer themselves for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

INTERESTS IN COMPETING BUSINESS

None of the Directors or the substantial Shareholders of the Company (the "Substantial Shareholders") or their respective close associates (as defined in the GEM Listing Rules) has interests in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year ended 31 December 2018 and up to the date of this Annual Report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and company secretary are set out on pages 11 to 14 of this Annual Report.

EMOLUMENT POLICY

The emoluments of the Directors of the Company are prepared by the Remuneration Committee and then recommend to the Board, having regard to the Group's operating results, individual performance and comparable market statistics. All the emolument of Directors has been reviewed and ratified by the Remuneration Committee.

Details of the emoluments of the Directors of the Group are set out in note 10 to the consolidated financial statements of this Annual Report.

The Group has adopted share option scheme as an incentive to eligible employees. Details of the share option schemes of the Group are set out in note 33 to the consolidated financial statements of this Annual Report.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 10 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association of the Company, the Directors and officers shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty; provided that this indemnity shall not extend to any matter in respect of any own fraud or dishonesty which may attach to any of the Directors and officers.

The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this Annual Report, at no time during the Review Year was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its specified undertakings as defined in the Companies (Directors' Report) Regulation (Chapter 622D of the laws of Hong Kong) or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as the related party transactions and connected transactions disclosed in note 32 to the consolidated financial statements, there were no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company's or any of its subsidiaries was a party, and in which a Director or its connected entities had a material interest (whether directly or indirectly) subsisting at the end of the year or at any time during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

During the Review Year, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group are set out in note 25 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying shares or debentures of the Company and 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")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the Shares

Name of Directors	Nature of interest/holding capacity	Number of ordinary shares held	Percentage of issued share capital of the Company *(note 1)*
Mr. Chow *(note 2)*	Interest in a controlled corporation	357,000,000	50.60%
Professor Chow *(note 2)*	Interest in a controlled corporation	357,000,000	50.60%
	Beneficial owner	510,000	0.07%

Notes:

(1) As at 31 December 2018, the Company's issued share capital was HK$7,055,000 divided into 705,500,000 shares of HK$0.01 each.

(2) Niche-Tech Investments Holdings Limited ("BVI Holdings") is beneficially owned as to 40% by Mr. Chow and 60% by Professor Chow. By virtue of SFO, Mr. Chow and Professor Chow are deemed to be interested in the 357,000,000 shares held by BVI Holdings.

Interests in shares of the associated corporations of the Company

Name	Name of associated corporation	Nature of interest/ holding capacity	Number of shares held/ interested in the associated corporations	Percentage of shareholding *(%)*
Professor Chow	Chows Investment Group Limited ("BVI Chows") *(notes 1 and 2)*	Beneficial interest	6	60.00%
Mr. Chow	BVI Chows *(notes 1 and 2)*	Beneficial interest	4	40.00%
Professor Chow *(note 2)*	BVI Holdings *(note 1)*	Interest in a controlled corporation	10,000,000	100.00%
Mr. Chow *(note 2)*	BVI Holdings *(note 1)*	Interest in a controlled corporation	10,000,000	100.00%

Notes:

1. BVI Chows holds 100% interest in BVI Holdings which in turn holds 50.60% interest in the Company or 357,000,000 shares. Therefore, BVI Chows and BVI Holdings are the associated corporations of the Company for the purpose of the SFO.

2. Mr. Chow and Professor Chow are interested in as to 40% and 60% of the issued share capital of BVI Chows. BVI Chows holds 100% interest in BVI Holdings. Mr. Chow and Professor Chow are therefore deemed to be interested in 100% of BVI Holdings for the purpose of the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors nor chief executives of the Company had or was deemed to have any other interests in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

So far as is known to the Directors, as at 31 December 2018, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions (directly or indirectly) in the Shares or underlying shares that would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO for being recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the Shares of the Company

Name of Shareholder	Nature of interest/holding capacity	Number of shares	Percentage of issued share capital of the Company *(note 1)*
BVI Holdings	Beneficial owner	357,000,000	50.60%
BVI Chows	Interest of controlled corporation *(note 2)*	357,000,000	50.60%
Mrs. Chow Fung Wai Lan Rita ("Mrs. Chow")	Interest of spouse *(note 3)*	357,510,000	50.67%
Mrs. Chow Kuo Li Jen	Interest of spouse *(note 4)*	357,000,000	50.60%
Mr. Ma	Beneficial owner	152,490,000	21.61%
Ms. Cheng Pak Ching	Interest of spouse *(note 5)*	152,490,000	21.61%

Notes:

(1) As at 31 December 2018, the Company's issued ordinary share capital was HK$7,055,000 divided into 705,500,000 shares of HK$0.01 each.

(2) BVI Chows holds 100% interest in BVI Holdings and is therefore deemed to be interested in the 357,000,000 shares held by BVI Holdings for the purpose of the SFO.

(3) Mrs. Chow is the spouse of Professor Chow. Mrs. Chow is deemed to be interested in all the Shares in which Professor Chow is interested in for the propose of the SFO.

(4) Mrs. Chow Kuo Li Jen is the spouse of Mr. Chow. Mrs. Chow Kuo Li Jen is deemed to be interested in all the Shares in which Mr. Chow is interested in for the propose of the SFO.

(5) Ms. Cheng Pak Ching is the spouse of Mr. Ma. Ms. Cheng Pak Ching is deemed to be interested in all the Shares in which Mr. Ma is interested in for the purpose of the SFO.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other persons (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interest or short positions in the Shares or underlying shares would fall to be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO for being recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' SECURITIES TRANSACTIONS

Details of Directors' securities transactions are set out in the section headed "Corporate Governance Report" on page 20 of this Annual Report.

PURCHASE, SALE OR REDEMPTION OF 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 Review Year and up to date of this report.

INTEREST OF THE COMPLIANCE ADVISER

As notified by Titan Financial Services Limited ("**Titan Financial**"), the Company's compliance adviser, save for the compliance agreement entered into between the Company and Titan Financial dated 1 September 2017 in connection with the Listing, none of Titan Financial or its directors, employees or associates (as defined in the GEM Listing Rules) had any interest in the Group as at 31 December 2018, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

CORPORATE GOVERNANCE CODE

Details of the principle corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 15 to 23 of this Annual Report.

CHARITABLE DONATIONS

No charitable donations made by the Group during the year ended 31 December 2018 (31 December 2017: HK$ Nil).

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. The dividend payout ratio shall be determined or recommended, as appropriate, by the Board at its absolute discretion after taking into account the Company's financial results, future prospects and other factors, and subject to:

- the Articles of Association of the Company;
- the applicable restrictions and requirements under the laws of the Cayman Islands;
- any banking or other funding covenants by which the Company is bound from time to time;
- the investment and operating requirements of the Company; and
- any other factors that have material impact on the Company.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company maintained sufficient prescribed minimum number of the issued Shares in public hands as required under the GEM Listing Rules.

INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 December 2018 were audited by Deloitte. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Deloitte.

On behalf of the Board

Chow Bok Hin Felix
Executive Chairman and Executive Director

Hong Kong, 21 March 2019

As at the date of this report, the executive Directors are Mr. Chow Bok Hin Felix, Professor Chow Chun Kay Stephen and Mr. Shi Yiwu, the non-executive Director is Mr. Ma Yung King Leo, and the independent non-executive Directors are Professor Ng Wang Wai Charles, Dr. Cheng Faat Ting Gary and Mr. Tai Chun Kit.

This report will remain on the GEM website at http://www.hkgem.com on the "Latest Listed Company Information" page for a minimum period of seven days from the date of its publication. This report will also be published on the Company's website at http://www.nichetech.com.hk.

ABOUT THIS REPORT

This report is the first Environmental, Social and Governance report (the "report") published by Niche-Tech Group (the "Company"), which reports on the environmental, social and governance performance of the Company and its subsidiaries (collectively as the "Group"). It is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as contained in Appendix 20 of the GEM Listing Rules.

Available in both Chinese and English, the report has been uploaded to the websites of The Stock Exchange of Hong Kong Limited ("SEHK") and the Company (nichetech.com.hk).

Reporting Boundary

The report focuses on the operation of Niche-Tech Group's business in the development, production and sales of semiconductor packaging between January 2018 and December 2018 (the "reporting period"). The reporting boundary covers the Hong Kong headquarter office and the production facility in Shantou (collectively as the "sites of operation"[1]). The Group will continuously upgrade the internal data collection procedure and gradually expand the scope of disclosure. A complete index that references the Environmental, Social and Governance Reporting Guide of SEHK is inserted at the end for readers' easy reference.

Confirmation and Approval

Information disclosed in this report is sourced from the internal documents and statistical data of the Group. This report has been confirmed and approved by the Board of Directors of the Group on 21 March 2019.

Opinion and Feedback

The Group values the opinion of stakeholders. If you have any questions or suggestions regarding the content or format of the report, please contact the Group via the following channels:

Address: Room 208, Lakeside 1, Hong Kong Science Park
Email: info@nichetech.com.hk
Tel: 852-2115 3979
Fax: 852-2115 3748

SUSTAINABILITY GOVERNANCE

The Group has established a Social and Governance Committee (hereafter as the "Committee") to manage the sustainability risks in the operation of Niche-Tech Shantou. Issues managed by the Committee cover: social, environmental, health and safety; security; relations with employees; relations with the community and individuals related to other businesses; and ethical conducts. The Committee is chaired by the General Manager, who fully monitors the sustainability policies, measures and performance. The Committee also formulates the sustainability strategies of the sites of operation, sets objectives and approves targets, as well as regularly reports to the Board of Directors.

ESG RISK MANAGEMENT

The Group considers risk management as an integral part of routine management processes and good corporate governance. Systematic risk management practices are the means to ensure that the sites of operation are successful in reaching the prescribed strategic targets and business objectives and are able to maintain continuous operations in the changing business environment. The Committee is responsible for the environmental, social and governance ("ESG") risk management system of the sites of operation of the Group. Qualified personnel in each department continually operates and monitors the systems and assess the risks according to their magnitude and frequencies. When high-risk factors are identified, the relevant departments must adopt response measures immediately to avoid or mitigate risk.

[1] The sites of operation within the reporting boundary are managed by the Company's subsidiary Niche-Tech Kaiser (Shantou) Limited ("Niche-Tech Shantou") (汕頭市駿碼凱撒有限公司) (English name for identification purpose only).

ENVIRONMENTAL PROTECTION

Environmental sustainability is a key concern of the Group in fulfilling its corporate social responsibility. Apart from abiding by the relevant local environmental laws and regulations applicable to the sites of operation, the Group also formulated the Environment Handbook (《環境手冊》) according to international standards of environmental management system established in ISO14001. The Handbook covers policies of emissions management and use of resources, to regulate the procedures to identify environmental factors in order to effectively manage environmental risks and respond to opportunities. Niche-Tech Shantou also established an Environmental Management System Standard Assurance Team, which is led by the Quality Control Department, to maintain and continuously improve the environmental management system.

During the reporting period, the sites of operation implemented the following measures:

- establishing environmental policies and environmental goals (e.g. formulating energy efficiency targets);
- integrating environmental management principles and systems (e.g. energy-efficient office equipment) into the business process;
- communicating environmental management approach and requirements with employees and other related parties;
- instructing and encouraging employees to contribute to environmental management; and
- reviewing and evaluating the environmental management system on a regular basis to ensure its effectiveness and continuous improvement in environmental protection.

Emissions

The Group has formulated the Energy Efficiency and Emissions Reduction Management Protocols (《節能減排管理規定》) and the Waste Management Protocols (《廢棄物管理規定》) at the sites of operation to provide employees with regular guidance for reducing and managing emissions.

During the reporting period, the sites of operation commenced the following measures:

- controlling the handling processes of various types of waste and emissions, such as monitoring the handling of waste, prevention of soil pollution or sewage discharge; and
- monitoring and measuring the greenhouse gas ("GHG") emissions with carbon footprint disclosures.

The main emissions at the sites of operation include air emissions from the use of fuel vehicles, the GHG generated indirectly by electricity consumption, wastewater and waste. The discharge of sewage and waste from the sites of operation came from employees' domestic use and does not involve the production of industrial wastewater or industrial waste[2].

To reduce the production of emissions and pollution to the surrounding environment, the Company commissioned a consultancy to conduct carbon assessment during the reporting period to quantify its GHG emissions (or "carbon emissions") produced by its operations. The quantification was carried out with reference to the guidelines[3] compiled by the Environmental Protection Department and Electrical and Mechanical Services Department of Hong Kong and international standards such as the GHG Protocol[4].

[2] Domestic sewage generated by the sites of operation is discharged to the sewage treatment plant through local pipes. Therefore, record of discharge was not available.

[3] Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong.

[4] GHG Protocol Corporate Accounting and Reporting Standard.

GHG Emissions

Scope	**Emissions in 2018 (tonnes of CO2-e)**
Scope 1: Direct Emissions[5]	16.8
Scope 2: Energy indirect emissions[6]	1,257.8
GHG Emissions in Total	**1,274.6**
GHG Intensity (per 1,000 square metre floor area)	9.5

The carbon emissions from the sites of operation are mainly from the use of purchased electricity in Scope 2, accounting for more than 98% of total emissions. Targeting at the major sources of carbon emissions, the Group will continue to assess, record and disclose its GHG emissions and other environmental data annually to review the effectiveness of existing measures, which should help further develop emission reduction targets.

Data related to the environmental key performance indicators ("KPIs") are listed in an index in the last section of the report.

Use of Resources

The Group understands that reasonable use of resources is an indispensable part of sustainability. The Energy Efficiency and Emissions Reduction Management Protocols (《節能減排管理規定》) of Niche-Tech Shantou prescribe measures to improve resource efficiency (including: consumption of electricity, vehicle fuel, paper and product materials). The requirements include:

- setting goals for energy and other resource consumption with implementation checks;
- controlling the consumption of energy and other resources based on established goals, and implementing electricity saving and fuel saving measures;
- enhancing employee education on the conservation of energy and other resources; and
- regular maintenance of water and electricity consuming devices, data collection on resource use, survey analysis.

[5] Scope 1 includes GHG emissions from mobile source combustion.

[6] Scope 2 includes GHG emissions of purchased electricity from power companies.

The Group continuously supervises its employees in the implementation of measures to save energy, water and paper at the sites of operation.

Type	Measures
Energy	• Use separate switch controls in areas such as offices and conference rooms • Replace energy-intensive used equipment with energy-efficient electromechanical equipment • Monitor energy consumption
Water consumption	• Regular maintenance of related devices such as faucets • Use faucets with Grade 1 Water Efficiency Label • Design water-saving notices to remind employees to save water • Monitor water consumption
Paper	• Use paper made with recycled materials from sustainable sources • Opt for electronic communication and electronic archiving to reduce the use of paper documents • Recommend double-size paper use • Adopt electronic tendering

The sites of operation plan to adopt more energy-saving and emission-reducing measures in the next year, such as installing motion sensors or photoreceptors in the workplace and continuous enhancement of employee awareness of environmental protection.

The Environment and Natural Resources

Niche-Tech Shantou has formulated the Environmental Factors Identification and Assessment Control Procedures (《環境因素識別與評價控制程序》) to identify and assess the key environmental factors in all parts of the operation. The sites of operation have formulated environmental targets and management plans in response to the key environmental factors identified. When making major business decisions, the Group also considers the impact of business activities on climate change, and adopts measures to protect water and soil, restore vegetation and reduce occupation of cultivated land around the Shantou production facility.

During the reporting period, the Group complied with the relevant laws and regulations, such as the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Prevention and Control of Water Pollution, and the Water Pollution Control Ordinance (Cap. 358 Laws of Hong Kong). There were no cases of non-compliance with laws and regulations in relation to emissions and the environment at the sites of operation.

EMPLOYMENT AND LABOUR PRACTICES

The Group commits to building an equal, friendly and harmonious working environment for all employees. Niche-Tech Shantou has released the Staff Handbook (《員工手冊》) to employees to state the rights and duties between the Group and the employees.

Employment

The Group values talents as key to corporate success and sustainability. Niche-Tech Shantou stipulates in the Anti-Discrimination Policy (《禁止歧視管理制度》) that:

- the development and implementation of policies such as recruitment, compensation, benefits, training, promotion, holidays, dismissal or retirement should adhere to the principles of fairness and impartiality;
- discriminatory content should be avoided in job advertisements;
- a complaint mechanism should be established to handle and respond to complaints and suggestions related to anti-discrimination in a timely manner; and
- the Group should not interfere employee activities that involve ethnicity, social class, nationality, religion, disability, gender orientation, and freedom of association in trade union.

During the reporting period, the Group complied with the relevant laws and regulations, such as the Labour Law of the People's Republic of China, and the Employment Ordinance (Cap. 57, Laws of Hong Kong). No cases of non-compliance with laws and regulations in relation to employment was found in the sites of operation.

Health and Safety

Niche-Tech Shantou formulated the Occupational Health and Safety Management Handbook (《職業健康安全管理手冊》) according to the OHSAS 18001 requirements of occupational health and safety management system. It adopts a "safety first, people-centric, prevention-oriented" approach to provide a healthy and safe working environment for employees.

Niche-Tech Shantou has established a Occupational Health and Safety Standard Assurance Team. Comprising management representatives, department heads and personnel, the group is responsible for identifying and controlling the risks within the scope of work and formulating the management process of key safety events according to the results of risk assessment. All employees must also receive education and training to improve their awareness of occupational health and safety. The sites of operation provide employees with appropriate and adequate personal protective equipment to minimise the chance of injuries, diseases or exposures to occupational hazards in the workplace.

During the reporting period, the Group complied with the relevant laws and regulations, such as the Production Safety Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases, and the Occupational Safety and Health Ordinance (Cap. 509, Laws of Hong Kong). No cases of non-compliance with laws and regulations in relation to health and safety was found in the sites of operation.

Development and Training

To enhance not only working skills but also personal development opportunities of employees, the Group arranges various types of employee training. Niche-Tech Shantou formulated the Employee Training Management Protocols (《員工培訓管理規定》) for orientation and on-the-job training. The training content covers basic knowledge in production safety, environment, and occupational health, as well as regulations involved. The Group also arranged other regular training for the improvement of technical skills. The sites of operation have established a system to identify the training needs of employees so that training content can be more targets-based.

Labour Standards

Niche-Tech Shantou formulated the Management System of Female Workers and Youth Workers（《女職工和未成年工管理制度》）to specify the employment process of the Human Resources and Administration Department and remedial measures on child labours. The management system clearly defines the minimum working age. Before hiring any employees, relevant documentation should be thoroughly checked to verify their age and identity, to avoid employing: child labour; forced, bonded (including debt bondage) or indentured labour; involuntary prison labour; trafficked labour; or slave labour. If child labour was discovered, the responsible persons of the Human Resources and Administration Department shall bring the child away from the workplace to ensure his/her safety.

On the other hand, the Staff Handbook（《員工手冊》）of the Group stipulates that overtime work is not encouraged. If working overtime outside office hours are required for business reasons, the Group shall prioritise compensation leave on the basis of ensuring employees getting adequate recovery.

The Group complied with the relevant laws and regulations, such as the Labor Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Minors, and the Employment of Children Regulations in Hong Kong. During the reporting period, no cases of non-compliance with laws and regulations in relation to child labour and forced labour was found in the sites of operation.

OPERATING PRACTICES

Supply Chain Management

Proper management of the supply chain is an important way to fulfill social responsibility. The sites of operation of the Group formulated the Supply Chain Management and Assessment（《供應商管理與評估》）, aiming at managing the environmental and social risks of suppliers. In particular, the assessment system specifies that qualified suppliers should sign a declaration that the conflict minerals (including tantalum, tin, tungsten and gold) in the raw materials supplied would not directly or indirectly fund armed organisations that are funding or benefited by the Democratic Republic of the Congo or other organisations that undermine human rights. Qualified suppliers also have to sign the Suppliers Environmental Agreement（《供方環境協議》）and the Quality Assurance Agreement（《質量保證協議》）and commit themselves to the environmental and quality standards of raw materials.

Product Responsibility

The Group values the quality of customer service and product quality. Niche-Tech Shantou's Procedures on Customer Complaint and Return Handing（《客戶投訴及退換貨處理規程》）stipulates the duties and procedure of handling customer complaints and return. If there are problems with product quality, the business department will arrange return.

To protect customer information and intellectual property, Niche-Tech Shantou's Management Protocols on Intellectual Property, Confidentiality and Competition Restriction（《知識產權、保密及競業限制管理規定》）requires that employees should not disclose information of suppliers, distributors and customers.

The Group plans to continuously improve the management of product responsibility. It will pay attention to the revision of regulations on product safety and follow up in a timely manner to formulate policies related to advertisement and labelling and provide customers with objective, accurate, honest and impartial information in all marketing channels.

During the reporting period, the Group complied with the relevant laws and regulations related to product responsibility, such as the Product Quality Law of the People's Republic of China, the Patent Law of the People's Republic of China, and the Competition Ordinance in Hong Kong. No cases of non-compliance with laws and regulations in relation to product responsibility was found in the sites of operation.

Anti-corruption

To maintain a fair, ethical and efficient business and working environment and to prevent any form of corruption, the Group has formulated the Corruption Prevention Policy (《防止賄賂政策》), the Anti-Fraud Procedures (《反舞弊程序》) and the Anti-Money Laundering Management Regulations (《反洗錢管理規定》), and pledges to:

- create a culture of integrity within the Group and enhance employees' awareness of anti-corruption;
- ensure continuous communication with employees and customers on anti-corruption policies and implementation; and
- take steps to prevent bribery, extortion, fraud and money laundering in the business operation.

During the reporting period, the Group complied with the relevant laws and regulations, such as the Anti-Money Laundering Law of the People's Republic of China and the Prevention of Bribery Ordinance (Cap. 201, Laws of Hong Kong). No cases of non-compliance with laws and regulations in relation to corruption was found in the sites of operation.

COMMUNITY INVESTMENT

The Group formulated the Community Investment Policy Statement (《社區投資政策聲明》), to fulfil its corporate responsibility, to contribute to the community where it operates, and to create value for society and the environment. The statement undertakes to:

- support community projects and activities that have positive impacts on social development;
- encourage and arrange for employees to participate in volunteer services and charitable activities;
- leverage its own technology and service advantages to contribute to the communities in which it operates; and
- promote a responsible corporate culture within the Group.

The Group will conduct a community impact study at the sites of operation in the future to understand the needs of the communities in which it operates. The Group will also set up a community investment working group to coordinate the implementation of community investment measures and select volunteer activities and charitable activities organised by external organisations for employees, which should encourage employees to participate in community activities.

ESG REPORTING GUIDE CONTENT INDEX[7]

Material Aspect	Content	KPI in the reporting period	Page Index
A. *Environmental*			
A1 Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	–	36
A1.1	The types of emissions and respective emissions data	–	–
	Sulphur oxides (SOx) (kilogram)	13.6	–
	Particulate matter (kilogram)	0.4	–
A1.2	GHG emissions in total (tonnes CO2-e)	1,274.6	–
	Intensity of GHG emissions (tonnes CO2-e/1,000 sq.ft.)	1.03	–
A1.3	Total hazardous waste produced (tonnes)	6.8	–
	Intensity of total hazardous waste produced (tonnes/unit)	0.03	–
A1.4	Total non-hazardous waste produced (tonnes)	2.8	–
	Intensity of non-hazardous waste produced (tonnes/1,000 sq.ft.)	0.02	–
A1.5	Description of measures to mitigate emissions and results achieved	–	36
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	–	36

[7] The date of initial listing on SEHK Growth Enterprise Market ("GEM") of the Company was on 30 May 2018, and the operations of Hong Kong office in Hong Kong Science Park commenced thereafter. In the reporting period prior to the date of initial listing, the @business address of the Company was located in Winfield Commercial Building in Tsim Sha Tsui, Hong Kong. The accounting of pertinent environmental KPIs cover the environmental performance at these two business addresses in Hong Kong consecutively.

Material Aspect	Content	KPI in the reporting period	Page Index
A2 Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	–	37
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh)	–	–
	Direct energy consumption (MWh equivalent)	68.7	–
	Indirect energy consumption (MWh)	2,386.6	–
	Total energy consumption intensity (MWh equivalent/1,000 sq.ft.)	18.3	–
A2.2	Water consumption in total and intensity (cubic meter)[8]	11,920	–
	Water consumption intensity (cubic meter/1,000 RMB)	0.05	–
A2.3	Description of energy use efficiency initiatives and results achieved	–	38
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved[9]	–	–
A2.5	Total packaging material used for finished products (tonnes)	11.4	–
	Packaging material used per unit of production (tonne/million RMB)	0.05	–
A3 The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	–	38
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	–	38

[8] Only includes the production facility in Shantou. Water supply in Hong Kong headquarters is provided by Hong Kong Science Park. Separate record of consumption was not available.

[9] Drinking water was supplied by municipal sources, there were no issue in sourcing water in the sites of operation.

Material Aspect	Content	KPI in the reporting period	Page Index
B. *Social*			
B1 Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	–	39
B2 Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	–	39
B3 Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	–	39
B4 Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	–	40

Material Aspect	Content	KPI in the reporting period	Page Index
B5 Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain	–	40
B6 Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	–	40
B7 Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	–	41
B8 Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	–	41

Deloitte. 德勤

TO THE MEMBERS OF NICHE-TECH GROUP LIMITED
駿碼科技集團有限公司
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Niche-Tech Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 115, 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 the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with 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. This 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
Capitalisation of development costs	
We identified the capitalisation of development costs as a key audit matter due to the magnitude of the amount and the significant judgement involved to determine the expenditure to be capitalised. As disclosed in note 14 to the consolidated financial statements, additions to development costs amounted to HK$11,591,000 during the year ended 31 December 2018 and the carrying value of development costs amounted to HK$46,503,000 as at 31 December 2018. The Group capitalises significant costs incurred during the design and development phase of internal projects for development of new technology and new products. Details of the criteria for the expenditure to be capitalised are disclosed in note 3 to the consolidated financial statements. The capitalisation involved management's judgement in assessing of whether technical and commercial feasibility had been achieved for each of the project. The assessment of technical feasibility is based on the management assessment of whether successful product testing had been performed. The assessment of commercial feasibility is based on the profit forecast of each development project prepared by the management that based on certain key assumptions, including revenue generated and relevant market analysis.	Our procedures in relation to capitalisation of development costs included: • Obtaining an understanding of the key controls over the capitalisation of development costs; • Obtaining the commercial and technical feasibility reports provided by the management and assessing the reasonableness of the commercial and technical feasibility by reference to the our knowledge of the Group's business and industry and market information; • Obtaining the progress reports and/or testing reports of projects provided by the management and enquiring the management about the technical feasibility of each new technology and product; • Performing an analysis of expenditure incurred for each development project and enquired with the management regarding the progress of each project to determine if the criteria for capitalisation are met; • Testing the appropriateness of expenses capitalised on a sample basis, by agreeing the material costs, overhead and technicians' hours incurred to external invoices and payroll records; and • Obtaining profit forecast prepared by the management for each development project and assess the appropriateness of key assumptions, including revenue generated and relevant market analysis from launching of the relevant products associated with the development project.

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 requirement of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express in 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 Yeung Yu Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 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	**184,439**	180,522
Cost of sales		**(143,626)**	(142,842)
Gross profit		**40,813**	37,680
Other income, other gains and losses	6	**3,851**	7,323
Impairment losses recognised, net		**(125)**	(1,405)
Selling and distribution expenses		**(10,908)**	(10,725)
Administrative expenses		**(19,487)**	(13,969)
Listing expenses		**(10,401)**	(10,711)
Finance costs	7	**(699)**	(3,792)
Profit before taxation		**3,044**	4,401
Income tax expense	8	**(2,694)**	(2,409)
Profit for the year	9	**350**	1,992
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(11,283)**	7,855
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**896**	(967)
Other comprehensive (expense) income for the year		**(10,387)**	6,888
Total comprehensive (expense) income for the year		**(10,037)**	8,880
Earnings per share			
– basic (HK cents)	12	**0.06**	0.44

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Plant and equipment	13	**46,832**	40,090
Intangible assets	14	**47,570**	42,237
Deposits paid for acquisition of plant and equipment and intangible assets		**2,920**	8,685
Deposits		**608**	252
Deferred tax assets	15	**3,093**	3,513
		101,023	94,777
CURRENT ASSETS			
Inventories	16	**21,130**	18,964
Trade and bills receivables	17(a)	**74,166**	59,635
Other receivables, prepayments and deposits	17(b)	**3,303**	7,951
Bank deposits	19(a)	**60,096**	–
Bank balances and cash	19(b)	**15,410**	10,758
		174,105	97,308
CURRENT LIABILITIES			
Trade and other payables	20	**12,223**	12,832
Contract liabilities	21	**172**	–
Tax payable		**1,399**	1,454
Bank borrowings	22	**13,786**	22,693
Deferred income	23	**1,327**	1,320
		28,907	38,299
NET CURRENT ASSETS		**145,198**	59,009
TOTAL ASSETS LESS CURRENT LIABILITIES		**246,221**	153,786
NON-CURRENT LIABILITY			
Deferred income	23	**9,093**	10,702
NET ASSETS		**237,128**	143,084
CAPITAL AND RESERVES			
Share capital	24	**7,055**	– *
Reserves		**230,073**	143,084
		237,128	143,084

* *Less than HK$1,000*

The consolidated financial statements on pages 50 to 115 were approved and authorised for issue by the Board of Directors on 21 March 2019 and are signed on its behalf by:

Chow Bok Hin Felix
DIRECTOR

Chow Chun Kay Stephen
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 *(note i)*	Capital reserve HK$'000	Exchange reserve HK$'000	Statutory reserve HK$'000 *(note ii)*	Retained profits HK$'000	Total equity HK$'000
At 1 January 2017	–	–	100,000	1	(10,542)	2,863	12,837	105,159
Profit for the year	–	–	–	–	–	–	1,992	1,992
Exchange differences arising on translation to presentation currency	–	–	–	–	7,855	–	–	7,855
Exchange differences arising on translation of foreign operations	–	–	–	–	(967)	–	–	(967)
Total comprehensive income for the year	–	–	–	–	6,888	–	1,992	8,880
Deemed distributions to Chows Electronics Limited ("Chows Electronics") *(note iii)*	–	–	–	–	–	–	(955)	(955)
Transfer to statutory reserve	–	–	–	–	–	1,330	(1,330)	–
Issue of shares *(note 24)*	–*	30,000	–	–	–	–	–	30,000
At 31 December 2017	–*	30,000	100,000	1	(3,654)	4,193	12,544	143,084
Adjustment *(note 2)*	–	–	–	–	–	–	(1,089)	(1,089)
At 1 January 2018 (restated)	**–***	**30,000**	**100,000**	**1**	**(3,654)**	**4,193**	**11,455**	**141,995**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**350**	**350**
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**–**	**(11,283)**	**–**	**–**	**(11,283)**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**896**	**–**	**–**	**896**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(10,387)**	**–**	**350**	**(10,037)**
Issue of new shares *(note 24)*	**1,955**	**111,435**	**–**	**–**	**–**	**–**	**–**	**113,390**
Transaction costs attributable to issue of new shares	**–**	**(8,220)**	**–**	**–**	**–**	**–**	**–**	**(8,220)**
Issue of shares by capitalisation of share premium account	**5,100**	**(5,100)**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**1,583**	**(1,583)**	**–**
At 31 December 2018	**7,055**	**128,115**	**100,000**	**1**	**(14,041)**	**5,776**	**10,222**	**237,128**

* *Less than HK$1,000*

Notes:

(i) On 1 April 2016, Niche-Tech BVI Limited ("Niche-Tech BVI"), which was then wholly and directly owned by Chows Electronics, which had been, in turn, owned as to 55% by Professor Chow Chun Kay, Stephen ("Professor Chow") and 45% by Mr. Chow Bok Hin, Felix ("Mr. Chow"), acquired Niche-Tech Holdings Limited ("Niche-Tech Holdings"), which had been the holding company of 汕頭市駿碼凱撒有限公司, or Niche-Tech Kaiser (Shantou) Limited* ("Niche-Tech Shantou") and Niche-Tech (Hong Kong) Limited ("Niche-Tech (HK)"), from Chows Electronics for a consideration of HK$100,000,000 which was equivalent to the then issued share capital of Niche-Tech Holdings. Accordingly, the share capital of Niche-Tech Holdings had been eliminated as one of the subsidiaries of Niche-Tech BVI and transferred to other reserve.

Pursuant to a resolution passed by the board of directors of Chows Electronics, Chows Electronics determined to waive the consideration payable by Niche-Tech BVI for the acquisition of Niche-Tech Holdings.

(ii) Amount represents statutory reserve of the Group's subsidiary in the People's Republic of China (the "PRC"). According to the relevant laws in the PRC, the Group's subsidiary in the PRC is required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

(iii) During the year ended 31 December 2017, the Group had an amount due from Chows Electronics that was unsecured, interest-bearing at 3.49% per annum and repayable on demand and such amount due from Chows Electronics was fully settled by Chows Electronics during the year ended 31 December 2017. The amount was measured at fair value at initial recognition using a market interest rate and based on the management's estimate of the timing of recovery. The differences between the respective fair values at initial recognition and the amount advanced to Chows Electronics were recognised in equity as deemed distributions, and the amount due from Chows Electronics was carried at amortised cost using the effective interest method. During the year ended 31 December 2017, the Group adjusted the carrying amount to reflect the change in estimation of the timing of recovery and the carrying amount was adjusted to reflect the change of estimations. The adjustments were also recognised in equity as deemed distributions to Chows Electronics.

* *English name for identification purpose only*.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**3,044**	4,401
Adjustments for:		
Finance costs	**699**	3,792
Net loss on disposal of plant and equipment	**14**	11
Depreciation of plant and equipment	**5,842**	4,592
Amortisation of intangible assets	**4,224**	3,363
Release of deferred income	**(1,362)**	(110)
Impairment losses recognised, net	**125**	1,405
Bank interest income	**(661)**	(28)
Interest income on amount due from a related party	**–**	(3,199)
Unrealised exchange gains	**1,239**	(3,073)
Operating cash flows before movements in working capital	**13,164**	11,154
Increase in inventories	**(3,228)**	(30)
increase in trade and bills receivables	**(16,664)**	(13,481)
Decrease (increase) in other receivables, prepayments and deposits	**2,875**	(892)
Increase in trade and other payables	**457**	2,998
Increase in contract liabilities	**37**	–
Increase in deferred income	**331**	136
Cash used in operations	**(3,028)**	(115)
Income tax paid	**(2,351)**	(3,062)
NET CASH USED IN OPERATING ACTIVITIES	**(5,379)**	(3,177)
INVESTING ACTIVITIES		
Placement of bank deposit	**(30,000)**	–
Development costs paid	**(9,883)**	(9,766)
Deposits paid for acquisition of plant and equipment and intangible assets	**(6,975)**	(10,540)
Acquisition of plant and equipment	**(6,146)**	(2,251)
Acquisition of intangible assets	**(405)**	–
Interest received	**661**	28
Proceeds from disposal of plant and equipment	**52**	–
Advances to a related party	**–**	(15,964)
Repayments from a related party	**–**	151,182
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(52,696)**	112,689

	Note	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES			
Issue of shares		**113,390**	30,000
Bank borrowings raised		**42,048**	143,887
Repayment of bank borrowings		**(51,013)**	(274,261)
Listing costs paid		**(5,490)**	(2,605)
Interests paid		**(633)**	(3,533)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**98,302**	(106,512)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**40,227**	3,000
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(5,479)**	77
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**10,758**	7,681
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**45,506**	10,758
Represented by:			
Bank deposits with original maturity of less than 3 months	*19(a)*	**30,096**	–
Bank balances and cash		**15,410**	10,758
		45,506	10,758

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 February 2017 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 May 2018. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred as the "Group") are principally engaged in the development, manufacture and sales of semiconductor packaging materials.

To rationalise the corporate structure in preparation for the listing of the Company's shares on GEM of the Stock Exchange, the entities now comprising the Group underwent a group reorganisation (the "Reorganisation").

Prior to the Reorganisation, Niche-Tech BVI, which was the then holding company of the Group's operating subsidiaries, namely Niche-Tech Holdings, Niche-Tech Kaiser International Inc., Niche-Tech Shantou and Niche-Tech (HK), was wholly and directly owned by Chows Electronics. Chows Electronics, in turn, is owned as to 55% by Professor Chow and 45% by Mr. Chow, both of whom have agreed to act in concert. Chows Electronics does not form part of the Group.

The Reorganisation mainly involved (i) incorporating the Company as an exempted company with limited liability in the Cayman Islands; (ii) acquiring Niche-Tech BVI by the Company from Chows Electronics; and (iii) transferring the Company's shares to Professor Chow and Mr. Ma Ah Muk ("Mr. Ma"), pursuant to an exchangeable deed.

Major steps of the Reorganisation are as follows:

(i) On 21 February 2017, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 shares of par value of HK$0.01 each. On the date of incorporation, 1 fully-paid share, representing the entire issued share capital of the Company, was allotted and issued to the initial subscriber, and was subsequently transferred to Niche-Tech Investment Holdings Limited ("BVI Holdings"). BVI Holdings was a company incorporated in the British Virgin Islands ("BVI") and was wholly-owned by Chows Investment Group Limited ("BVI Chows"). BVI Chows, in turn, was a company incorporated in BVI and was owned as to 60% by Professor Chow and 40% by Mr. Chow, both of whom had agreed to act in concert. Neither BVI Holdings nor BVI Chows formed part of the Group.

(ii) On 1 March 2017, Chows Electronics (as vendor), which was directly controlled by Professor Chow and Mr. Chow acting in concert, and the Company (as purchaser), which is indirectly controlled by Professor Chow and Mr. Chow acting in concert through BVI Holdings and BVI Chows, entered into a share swap agreement whereby the Company agreed to purchase, and Chows Electronics agreed to sell, the entire issued share capital of Niche-Tech BVI. As settlement of the consideration, the Company allotted and issued 999 new shares, credited as fully paid, to Chows Electronics, who nominated BVI Holdings to receive such shares. After completion of this acquisition, BVI Holdings holds 1,000 shares, representing the entire issued share capital, in the Company. The Company then became the holding company of the Group.

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(iii) On 1 March 2017, pursuant to an exchangeable deed, BVI Holdings transferred 299 shares, representing 29.9% equity interest, and 1 share, representing 0.1% equity interest, in the Company to Mr. Ma and Professor Chow respectively. Following the completion of the transfer, the Company is directly owned as to 70% by BVI Holdings, 29.9% by Mr. Ma and 0.1% by Professor Chow.

BVI Holdings is considered to be the immediate holding company of the Company, and BVI Chows is considered to be the ultimate holding company of the Company.

Pursuant to the Reorganisation detailed above, the Company has become the holding company of the entities now comprising the Group by acquiring Niche-Tech BVI and its subsidiaries from Chows Electronics. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, and accordingly, the consolidated financial statements have been prepared as if the Company had always been the holding company of the Group.

The consolidated financial statements relating to the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 December 2017 included the results of operation, changes in equity and cash flows of the entities now comprising the Group as if the current group structure had been in existence throughout the year ended 31 December 2017 or since their respective dates of incorporation, where applicable.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") as the Group's management believes HK$ is the appropriate presentation currency for the users of the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO 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 AMENDMENTS TO 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. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from sales of semiconductor packaging material.

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 application of HKFRS 15 has no significant impact on the timing and amounts of revenue in the retained profits at 1 January 2018. As at 1 January 2018, receipt in advance from customers of HK$144,000 in respect of sales of semiconductor packaging material previously included in trade and other payables were reclassified to contract liabilities upon the application of HKFRS 15.

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 HK$'000	Reclassification HK$'000	Amounts without application of HKFRS 15 HK$'000
CURRENT LIABILITIES			
Trade and other payables	12,223	172	12,395
Contract liabilities	172	(172)	–

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.1 HKFRS 15 Revenue from Contracts with Customers (continued)

Impact on the consolidated statement of cash flows

	As reported HK$'000	Reclassification HK$'000	Amounts without application of HKFRS 15 HK$'000
OPERATING ACTIVITIES			
Increase in trade and other payables	457	37	494
Increase in contract liabilities	37	(37)	–

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.

2.2 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.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.2 HKFRS 9 Financial Instruments (continued)

Summary of effects arising from initial application of HKFRS 9

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

	Note	**Trade and bills receivables** HK$'000	**Deferred tax assets** HK$'000	**Retained profits** HK$'000
Closing balance at 31 December 2017 – HKAS 39		59,635	3,513	12,544
Effect arising from initial application of HKFRS 9:				
Remeasurement				
Impairment under ECL model	*(a)*	(1,273)	184	(1,089)
Opening balance at 1 January 2018		**58,362**	**3,697**	**11,455**

Note:

(a) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade and bills receivables.

ECL for other financial assets at amortised cost, including other receivables and deposits, bank deposits and bank balances are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$1,273,000 and related deferred tax credit of HK$184,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

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

	Trade and bills receivables HK$'000
At 31 December 2017 – HKAS 39	1,458
Amounts remeasured through opening retained profits	1,273
At 1 January 2018	**2,731**

2. APPLICATION OF NEW AND AMENDMENTS TO 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 and an interpretation 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 and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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 AMENDMENTS TO 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 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.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$22,355,000 as disclosed in note 26. 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$508,000 and as 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the consolidated financial statements are 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 adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the entities comprising the Group. 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 reassess 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 in line with the Group's accounting policies.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

Sale with a right of return/exchange

For a sale of products with a right of return/exchange for dissimilar products, the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);

(b) a refund liability/contract liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

Revenue from sale of goods is recognised at a point in time when control of the goods is transferred to the customer upon delivery to the customer. The transaction price received by the Company is recognised as contract liability until the goods have been delivered to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 customer returns, rebates 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.

Leasing

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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 the 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 expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. 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), 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs which are not eligible for capitalisation to qualifying assets are recognised in profit or loss in the period in which they are incurred.

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 the Mandatory Provident Fund Scheme and the state-managed retirement benefits scheme are charged 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 after deducting any amount already paid.

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 as reported in the consolidated statement of profit or loss and other comprehensive income 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 tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition 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 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 rates (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 relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

Plant and equipment

Plant and equipment, other than construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such assets are classified to the appropriate categories of plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets, other than construction in progress, 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 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 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)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those 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).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets (continued)

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount 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.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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 first to reduce the carrying amount of any goodwill (if applicable) and then to the other 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration 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 option 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 the share option reserve. When share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital and 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 option reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivable 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

All regular way purchases or sales of financial asset 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.

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 financial asset or financial liability (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.

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.

All other financial assets are subsequently measured at fair value through profit or loss. All of the Group's financial assets are subsequently measured at amortised cost.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables and deposits, bank deposits and bank balances). 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 and bills receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings based on internal credit rating.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)

(i) *Significant increase in credit risk (continued)*

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

Despite the a foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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

(ii) *Definition of default*

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

(iii) *Credit-impaired financial assets*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)

(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.

(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.

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

- Nature of financial instruments (i.e. the Group's trade and bills receivables, other receivables and deposits, bank deposits and bank balances) are each assessed as a separate group;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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 and bills receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

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

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All regular way purchases or sales of financial asset 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 are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and bills receivables, other receivables and deposits and bank balances) 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.

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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as 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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills 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 and bills receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

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

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.

Financial liabilities

All financial liabilities 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 judgments, 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 future periods.

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

Capitalisation of development costs

As at 31 December 2018, the carrying amount of the Group's development costs are HKD$46,503,000 (2017: HK$41,310,000). The capitalisation involved management's judgement in assessing of whether technical and commercial feasibility had been achieved. Technical feasibility are evaluated based on testing results of products and commercial feasibility are evaluated based on forecast with assumption on revenue to be generated and relevant market analysis of the relevant products.

Estimated impairment of intangible assets not yet available for use

In accounting for intangible assets not yet available for use, the management considers the potential impairment based on the recoverable amount. Intangible assets not yet available for use are reviewed for impairment annually, irrespective of whether there is any indication that it may be impaired. Factors that would indicate potential impairment may include, but are not limited to, the significant change in technology associated with the intangible assets.

Determining whether an intangible asset is impaired requires an estimation of the recoverable amount of the cash-generating unit to which intangible asset has been allocated. The recoverable amount of cash-generating unit at the end of each reporting period is based on the higher of the fair value less cost of disposal and value in use. The calculation of value in use requires the management's judgement and estimation of future cash flows expected to arise from the cash-generating unit. The Group takes into consideration the assumptions including discount rate, revenue growth rates and gross margin by comparing to available market reports and historical trend analyses. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of intangible assets not yet available for use was HK$14,224,000 (2017: HK$8,366,000).

Provision of ECL for trade and bills receivables (upon application of HKFRS 9)

The Group uses provision matrix to calculate ECL for the trade and bills receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's default rates. At the end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade and bills receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about ECL and the Group's trade and bills receivables is disclosed in notes 17 and 29(b).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of trade receivables (before application of HKFRS 9)

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables was approximately HK$51,023,000 (net of allowance for doubtful debts of HK$1,458,000).

Recognition of deferred taxation

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 rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, PRC Enterprise Income Tax ("EIT") is calculated at 25% of the assessable profits for Niche-Tech Shantou. Pursuant to the relevant laws and regulations in the PRC, Niche-Tech Shantou is granted tax incentives as a High and New Technology Enterprise and is entitled to a concessionary rate of 15% for 3 years from 2018 to 2020.

In accounting for deferred tax assets on deferred income in respect of government grants, in case where the expected timing of release of deferred income is different from the previous expectation, an adjustment on the opening deferred tax assets may arise, which will be recognised in profit or loss in the period in which such expectation is revised. As at 31 December 2018, the carrying amount of deferred tax assets on deferred income in respect of government grants was HK$2,309,000 (2017: HK$2,861,000).

5. REVENUE AND SEGMENT INFORMATION

Revenue from sales of semiconductor packaging materials is from contracts with customers and recognised at a point in time when the customer obtains control of the goods.

Revenue is recognised when control of the goods has been transferred, being when the goods have been delivered the customer's specific location. Following delivery, the customer has full discretion over the manner of usage and consumption the goods, has the primary responsibility when on selling the goods and bears the risk of obsolescence and loss in relation to the goods.

Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur.

5. REVENUE AND SEGMENT INFORMATION (continued)

An analysis of revenue by major products is as follows:

	2018 HK$'000	2017 HK$'000
Bonding Wire	**142,649**	150,978
Encapsulant	**28,731**	16,868
Others	**13,059**	12,676
	184,439	180,522

The Group's operating segment is determined based on information reported to the chief operating decision maker (the "CODM"), being the executive directors of the Company, for the purpose of resource allocation and performance assessment. For management purpose, the Group operates in one business unit based on its products and its sole operating segment is the development, manufacture and sales of semiconductor packaging materials. The CODM monitors the revenue, results (excluding listing expenses), assets and liabilities of its business unit as a whole and regularly reviews financial information prepared in accordance with the accounting policies that are in accordance with HKFRSs, and without further discrete information. Accordingly, no analysis of segment information other than entity-wide information is presented.

Geographical information

The Group's revenue is mainly derived from customers located in the PRC and Hong Kong. Information about the Group's revenue by the geographical location in which the customers operate is detailed below:

	2018 HK$'000	2017 HK$'000
PRC excluding Hong Kong	**180,045**	174,056
Hong Kong	**4,394**	6,466
	184,439	180,522

Information about the Group's non-current assets (excluding financial assets and deferred tax assets) is presented based on the geographical location of the assets:

	2018 HK$'000	2017 HK$'000
PRC excluding Hong Kong	**93,907**	89,106
Hong Kong	**3,415**	1,906
	97,322	91,012

5. REVENUE AND SEGMENT INFORMATION (continued)

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group are as follows:

	2018 HK$'000	2017 HK$'000
Customer A	**55,536**	50,771
Customer B	**N/A**[1]	22,234

[1] The corresponding revenue did not contribute over 10% of total revenue of the Group for the year.

6. OTHER INCOME, OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Bank interest income	**661**	28
Interest income on amount due from a related party	**–**	3,199
Government subsidy income *(note)*	**1,634**	376
Net loss on disposal of plant and equipment	**(14)**	(11)
Net foreign exchange gains	**1,569**	3,720
Others	**1**	11
	3,851	7,323

Note: Except for the government grants as described in note 23, the remaining amount mainly represents subsidy income received from certain government authorities in the PRC as support funds for expenses incurred for the operations of Niche-Tech Shantou as a High and New Technology Enterprise in the PRC and for its application of patents in the PRC. The subsidies are one-off and non-recurring in nature.

7. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interests on bank borrowings	**633**	3,043
Interests on discounted bills with recourse	**66**	259
Finance charge for early repayment of bank borrowings	**–**	490
	699	3,792

8. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
The income tax expense comprises:		
PRC EIT tax:		
Current year	**2,629**	2,671
Overprovision in prior years	**(367)**	–
Deferred tax *(note 15)*	**432**	(262)
	2,694	2,409

Under the EIT Law and Implementation Regulation of the EIT Law, PRC EIT is calculated at 25% of the assessable profits for Niche-Tech Shantou. Pursuant to the relevant laws and regulations in the PRC, Niche-Tech Shantou is granted tax incentives as a High and New Technology Enterprise and is entitled to a concessionary tax rate of 15% for 3 years from 2018 to 2020.

No provision for Hong Kong Profits Tax is made in the financial statements since the relevant group entities have no assessable profits for both years.

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	**3,044**	4,401
Tax at PRC EIT rate of 15% *(note)*	**457**	660
Tax effect of expenses not deductible for tax purpose	**2,604**	1,934
Tax effect of income not taxable for tax purpose	**(680)**	(776)
Tax effect of tax losses not recognised	**658**	760
Effect of different tax rates of subsidiaries operating in other jurisdiction	**(249)**	(169)
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate on the release of deferred income	**271**	–
Overprovision in prior years	**(367)**	–
Income tax expense for the year	**2,694**	2,409

Note: The income tax rate in the jurisdiction where the operations of the Group are substantially based is used.

9. PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	**280**	–
Other emoluments, salaries and other benefits	**2,405**	801
Retirement benefit scheme contributions	**68**	35
	2,753	836
Other staff costs:		
Staff salaries and allowances	**21,139**	19,488
Retirement benefit scheme contributions	**3,508**	3,328
	24,647	22,816
Total staff costs	**27,400**	23,652
Capitalised in intangible assets	**(3,939)**	(3,764)
Capitalised in inventories	**(8,143)**	(6,534)
	15,318	13,354
Depreciation of plant and equipment	**7,550**	6,435
Capitalised in intangible assets	**(1,708)**	(1,843)
Capitalised in inventories	**(2,928)**	(3,137)
	2,914	1,455
Amortisation of intangible assets	**4,224**	3,363
Capitalised in inventories	**(4,013)**	(3,193)
	211	170
Auditor's remuneration	**1,000**	600
Cost of inventories recognised as cost of sales	**143,626**	142,842
Research and development costs (excluding staff costs and depreciation of plant and equipment) recognised as expenses (included in administrative expenses)	**266**	118
Minimum operating lease rentals in respect of rented premises	**3,379**	2,302

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Executive and chief directors

Mr. Chow, Professor Chow and Mr. Shi Yiwu ("Mr. Shi") were appointed as executive directors of the Company on 21 February 2017, 21 February 2017 and 6 September 2017, respectively. Mr. Chow is also the chief executive of the Group and his emoluments disclosed below included those for services rendered by him as the chief executive.

Directors' and chief executive's remuneration paid or payable (including emoluments for the services as employees of the Group entities prior to becoming directors of the Company) by the entities comprising the Group during the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance is as follows:

For the year ended 31 December 2018

	Directors' fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Mr. Chow	**–**	**1,575**	**18**	**1,593**
Professor Chow	**–**	**622**	**11**	**633**
Mr. Shi	**–**	**208**	**39**	**247**
	–	**2,405**	**68**	**2,473**

For the year ended 31 December 2017

	Directors' fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Mr. Chow	–	600	18	618
Professor Chow	–	–	–	–
Mr. Shi	–	201	17	218
	–	801	35	836

The executive directors' emoluments above were for services in connection with the management of the affairs of the Company and the Group.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Non-executive director

Mr. Ma Yung King Leo was appointed as a non-executive director of the Company on 6 September 2017.

For the year ended 31 December 2018

	Director's fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Mr. Ma Yung King Leo	70	–	–	70

For the year ended 31 December 2017

	Director's fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Mr. Ma Yung King Leo	–	–	–	–

The non-executive director's emoluments shown above was for his services as director of the Company and the Group.

(c) Independent non-executive directors

No independent non-executive directors were appointed by the Company during the year ended 31 December 2017. Professor Ng Wang Wai Charles, Dr. Cheng Faat Ting Gary and Mr. Tai Chun Kit were appointed as independent non-executive directors of the Company on 8 May 2018.

For the year ended 31 December 2018

	Directors' fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Professor Ng Wang Wai Charles	70	–	–	70
Dr. Cheng Faat Ting Gary	70	–	–	70
Mr. Tai Chun Kit	70	–	–	70
	210	–	–	210

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(c) Independent non-executive directors (continued)

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

The five highest paid individuals of the Group included two directors (2017: one director) of the Company for the year ended 31 December 2018. The emoluments of the remaining individuals are as follows:

	2018	2017
	HK$'000	HK$'000
Salaries and allowances	**1,403**	1,617
Retirement benefit scheme contributions	**96**	86
	1,499	1,703

The emoluments were within the following bands:

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**3**	4

No emoluments were paid by the Group to any of the directors of the Company and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

11. DIVIDENDS

No dividend was paid or declared or proposed for ordinary shareholders of the Company for both years, nor has any dividend been proposed since the end of the reporting period.

12. EARNINGS PER SHARE

	2018 **HK$'000**	2017 HK$'000
Earnings		
Earnings for the purposes of basic earnings per share:		
Profit for the year attributable to owners of the Company	**350**	1,992
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**625,693,151**	455,440,313

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2018 has been adjusted retrospectively for the effect of the capitalisation issue, as set out in note 24, as if the capitalisation issue had been effective on 1 January 2018.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2017 has been adjusted retrospectively for the effect of bonus element of additional shares issued on 25 July 2017 and the capitalisation issue, as set out in note 24 as if the bonus issue and the capitalisation issue had been effective on 1 January 2017.

No diluted earnings per share was presented for both years as there were no potential ordinary shares in issue.

13. PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture, fixture and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2017	60,992	633	8,233	1,232	4,927	76,017
Additions	4,075	–	158	–	460	4,693
Transfer	–	–	5,112	–	(5,112)	–
Disposals	(28)	–	–	–	–	(28)
Exchange realignment	4,983	36	860	97	206	6,182
At 31 December 2017	70,022	669	14,363	1,329	481	86,864
Additions	11,078	113	5,481	–	100	16,772
Transfer	–	–	474	–	(474)	–
Disposals	(468)	–	–	(53)	–	(521)
Exchange realignment	(3,995)	(28)	(958)	(66)	(11)	(5,058)
At 31 December 2018	**76,637**	**754**	**19,360**	**1,210**	**96**	**98,057**
DEPRECIATION						
At 1 January 2017	30,999	335	4,988	844	–	37,166
Provided for the year	5,234	59	1,008	134	–	6,435
Eliminated on disposals	(17)	–	–	–	–	(17)
Exchange realignment	2,658	26	434	72	–	3,190
At 31 December 2017	38,874	420	6,430	1,050	–	46,774
Provided for the year	4,740	64	2,684	62	–	7,550
Eliminated on disposals	(407)	–	–	(48)	–	(455)
Exchange realignment	(2,140)	(21)	(428)	(55)	–	(2,644)
At 31 December 2018	**41,067**	**463**	**8,686**	**1,009**	**–**	**51,225**
CARRYING VALUES						
At 31 December 2018	**35,570**	**291**	**10,674**	**201**	**96**	**46,832**
At 31 December 2017	31,148	249	7,933	279	481	40,090

13. PLANT AND EQUIPMENT (continued)

The above items of plant and equipment, other than construction in progress, less their residual values, are depreciated over their estimated useful lives on a straight-line basis as follows:

Plant and machinery	6 – 20% per annum
Furniture, fixtures and equipment	6 – 20% per annum
Leasehold improvements	20% or over the period of the relevant lease, whichever is shorter
Motor vehicles	10 – 20% per annum

14. INTANGIBLE ASSETS

	Patent and trademark HK$'000	Computer software HK$'000	Development costs HK$'000	Total HK$'000
COST				
At 1 January 2017	1,123	508	31,371	33,002
Additions	–	–	11,609	11,609
Exchange realignment	89	40	2,930	3,059
At 31 December 2017	1,212	548	45,910	47,670
Additions	–	405	11,591	11,996
Exchange realignment	(61)	(43)	(2,775)	(2,879)
At 31 December 2018	**1,151**	**910**	**54,726**	**56,787**
AMORTISATION				
At 1 January 2017	461	147	1,188	1,796
Provided for the year	117	53	3,193	3,363
Exchange realignment	41	14	219	274
At 31 December 2017	619	214	4,600	5,433
Provided for the year	120	91	4,013	4,224
Exchange realignment	(36)	(14)	(390)	(440)
At 31 December 2018	**703**	**291**	**8,223**	**9,217**
CARRYING VALUES				
At 31 December 2018	**448**	**619**	**46,503**	**47,570**
At 31 December 2017	593	334	41,310	42,237

Other than the development costs that are internally generated for the development of products and production techniques, the Group's patent and trademark and computer software are acquired from third parties.

14. INTANGIBLE ASSETS (continued)

The above intangible assets have finite useful lives and are amortised on a straight-line basis at rates as follows:

Patent and trademark	10%
Computer software	10%
Development costs	10%

As at 31 December 2018, development costs amounting to HK$14,224,000 (2017: HK$8,366,000) related to development projects in progress for the development of products and production techniques that are not yet available for use.

15. DEFERRED TAX ASSETS

The following is the major deferred tax assets recognised and movements thereon during the current and prior years:

	Allowance for doubtful debts	**Deferred income in respect of government grants**	**Accruals**	**Total**
	HK$'000	HK$'000 *(note 23)*	HK$'000	HK$'000
At 1 January 2017	–	2,615	388	3,003
Credit to profit or loss	210	39	13	262
Exchange realignment	9	207	32	248
At 31 December 2017	219	2,861	433	3,513
Adjustments *(note 2)*	184	–	–	184
At 1 January 2018 (restated)	**403**	**2,861**	**433**	**3,697**
Effect of decrease in application tax rate on the release of deferred income	**–**	**(271)**	**–**	**(271)**
(Charge) credit to profit or loss	**(14)**	**(151)**	**4**	**(161)**
Exchange realignment	**(16)**	**(130)**	**(26)**	**(172)**
At 31 December 2018	**373**	**2,309**	**411**	**3,093**

As at 31 December 2018, the Group had unused tax losses of approximately HK$16,619,000 (2017: HK$12,631,000), available to offset against future profits. No deferred tax asset had been recognised in respect of such unused tax losses due to the unpredictability of future profit streams. The tax losses as at 31 December 2018 and 2017 might be carried forward indefinitely.

15. DEFERRED TAX ASSETS (continued)

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation had not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of Niche-Tech Shantou amounting to HK$48,196,000 as at 31 December 2018 (2017: HK$38,492,000) as the Group was in a position to control the timing of the reversal of the temporary differences and it was probable that such differences would not reverse in the foreseeable future.

16. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Raw materials and consumables	**2,751**	2,466
Work in progress	**9,228**	8,257
Finished goods	**9,151**	8,241
	21,130	18,964

17. TRADE AND BILLS RECEIVABLES/OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

(a) Trade and bills receivables

	2018 **HK$'000**	2017 HK$'000
Trade receivables	**58,318**	52,481
Less: Allowance for doubtful debts	**(2,527)**	(1,458)
	55,791	51,023

The Group's trading terms with its customers are mainly on credit, except for certain customers where payment in advance is required. The credit period is generally 30 to 120 days. Each customer is granted with a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk.

17. TRADE AND BILLS RECEIVABLES/OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

(a) Trade and bills receivables (continued)

The following is an aged analysis of trade receivables net of allowance for credit losses based on the invoice dates at the end of the reporting periods.

	2018	2017
	HK$'000	HK$'000
1 – 30 days	**16,492**	16,958
31 – 60 days	**11,193**	10,135
61 – 90 days	**8,811**	12,524
Over 90 days	**19,295**	11,406
	55,791	51,023

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit terms granted to customers are reviewed regularly. The majority of the trade receivables that are neither past due nor impaired have no history of default on repayments.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$16,566,000 which are past due as at the reporting date. Out of the past due balances, HK$13,040,000 has been past due 90 days or more and is not considered as in default as there are long term/ on-going relationship and good repayment record from these customers. The Group does not hold any collateral over these balances.

As at 31 December 2017, 70% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group. The Group considered such balances could be recovered based on historical repayment history of the customers.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$15,343,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

17. TRADE AND BILLS RECEIVABLES/OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

(a) Trade and bills receivables (continued)

The following is an aged analysis of trade receivables which are past due but not impaired based on the invoice date at the end of the reporting periods:

	2017 HK$'000
1 – 30 days	352
31 – 60 days	2,580
61 – 90 days	3,995
Over 90 days	8,416
	15,343

Movements in the allowance for doubtful debts

	2017 HK$'000
Balance at beginning of the year	–
Impairment losses recognised on trade receivables	1,405
Amounts written off as uncollectible	(3)
Exchange realignment	56
Balance at end of the year	1,458

As at 31 December 2017, included in the allowance for doubtful debts was individually impaired trade receivables of HK$1,458,000. At the end of reporting period, the allowance for doubtful debts are individually impaired trade receivables, which are considered irrecoverable by the management after consideration of the credit quality of those individual customers and the aging of these receivables. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in note 29(b).

17. TRADE AND BILLS RECEIVABLES/OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

(a) Trade and bills receivables (continued)

Trade receivables denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2018 HK$'000	2017 HK$'000
United States Dollars ("US$")	315	408
RMB	2,483	460
	2,798	868

	2018 HK$'000	2017 HK$'000
Bills receivables	18,404	8,612
Less: Allowance for doubtful debts	(29)	–
	18,375	8,612

The Group accepts bills issued by banks from its trade customers with satisfactory and trustworthy credit history as settlement of trade debts. The following is an aged analysis of bills receivables based on the issue date of bill at the end of the reporting periods:

	2018 HK$'000	2017 HK$'000
1 – 30 days	4,948	2,018
31 – 60 days	5,292	210
61 – 90 days	2,508	2,973
Over 90 days	5,627	3,411
	18,375	8,612

The maturity period of all bills receivables as at 31 December 2018 and 2017 was within 365 days.

Details of impairment assessment of bills receivables for the year ended 31 December 2018 are set out in note 29(b).

17. TRADE AND BILLS RECEIVABLES/OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

(b) Other receivables, prepayments and deposits

	2018 **HK$'000**	2017 HK$'000
Value-added tax recoverable	**2,188**	2,045
Prepayments	**583**	1,360
Deposits	**168**	54
Prepaid listing expenses	**–**	1,523
Deferred listing expenses	**–**	2,770
Other receivables	**364**	199
	3,303	7,951

Other receivables and deposits denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2018 **HK$'000**	2017 HK$'000
HK$	**33**	54

Details of impairment assessment of other receivables and deposits for the year ended 31 December 2018 are set out in note 29(b).

18. TRANSFER OF FINANCIAL ASSETS

The Group had no outstanding discounted bills as at 31 December 2018. As at 31 December 2017, the Group had discounted bills received from trade customers on a full recourse basis to banks for short-term financing prior to the maturity of the bills. As the Group has not transferred the significant risks and rewards of ownership relating to these bills, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as secured bank borrowings. As at 31 December 2017, the carrying amount of bills discounted to the bank which have been pledged as security for the bank borrowings was HK$2,884,000; and the carrying amount of the associated liability was HK$2,884,000.

19. BANK DEPOSITS/BANK BALANCES AND CASH

(a) Bank deposits

	2018 HK$'000	2017 HK$'000
Bank deposit with original maturity of less than 3 months	**30,096**	–
Bank deposit with original maturity of more than 3 months	**30,000**	–
	60,096	–

Bank deposits carry fixed interests at market rate from 1.51% to 2.00% per annum (2017: nil).

(b) Bank balances and cash

Bank balances carried interest at market rates which range from 0.00% to 0.42% (2017: 0.01% to 0.42%) per annum as at 31 December 2018.

Bank balances and cash denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2018 HK$'000	2017 HK$'000
HK$	**221**	502
US$	**142**	808
RMB	**4**	9
	367	1,319

20. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**7,350**	6,926
Other payables	**768**	424
Accrued expenses	**4,105**	5,252
Receipt in advance	**–**	144
Other PRC tax payables	**–**	86
	12,223	12,832

20. TRADE AND OTHER PAYABLES (continued)

The trade suppliers either require cash on delivery from the Group or allow credit period ranging from 7 days to 90 days to the Group. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting periods:

	2018 **HK$'000**	2017 HK$'000
1 – 30 days	**5,510**	5,288
31 – 60 days	**919**	1,037
61 – 90 days	**496**	464
Over 90 days	**425**	137
	7,350	6,926

The Group has financial risk management policies in place to ensure that payables are paid within the credit time frame.

Trade and other payables denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2018 **HK$'000**	2017 HK$'000
US$	**1,018**	1,227
HK$	**160**	–

21. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018 HK$'000
Amount received in advance of delivery for semiconductor packaging materials	**172**	144

All sales of semiconductor packaging materials are for periods of one year or less.

As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

During the current year, revenue of HK$142,000 was recognised that was included in the contract liabilities balance at the beginning of the year.

22. BANK BORROWINGS

	2018	2017
	HK$'000	HK$'000
Carrying amounts of bank borrowings based on scheduled repayment dates set out in the loan agreements within one year	**13,786**	22,693
Analysed as:		
Amounts that contain a repayable on demand clause (shown under current liabilities) but repayable within one year	**13,786**	22,693

As at 31 December 2017, bank borrowings amounting to HK$19,809,000, were secured by certain properties held by Professor Chow and spouse of Professor Chow and entities controlled by Professor Chow; and bank borrowings amounting to HK$2,884,000 were secured by the bills discounted with recourse by the Group.

As at 31 December 2017, bank borrowings amounting to HK$19,809,000 were guaranteed by corporate guarantees provided by entities controlled by Professor Chow and personal guarantees provided by (i) Professor Chow and Mr. Chow and/or (ii) Mr. Ma, a non-controlling shareholder of the Company since 1 March 2017 and Mr. Ma Kiu Sang, son of Mr. Ma. Certain of the other bank borrowings were also guaranteed by the Government of the Hong Kong Special Administrative Region.

All of the aforesaid securities and guarantees have been released after the Company listed on GEM of the Stock Exchange in May 2018 or upon the repayment of bank borrowings during year ended 31 December 2018.

The exposure of the Group's bank borrowings are as follows:

	2018	2017
	HK$'000	HK$'000
Variable-rate bank borrowings	**13,786**	19,809
Fixed-rate bank borrowings	**–**	2,884
	13,786	22,693

As at 31 December 2018, the Group's variable-rate bank borrowings carried interests at 2.80% over Hong Kong Interbank Offered Rate ("HIBOR") per annum (2017: 2.25% to 3.00% over HIBOR per annum) quoted by certain banks in Hong Kong. The effective interest rates are at 4.96% (2017: ranging from 3.72% to 3.97%) per annum as at 31 December 2018.

The Group's fixed-rate borrowings as at 31 December 2017 carried interests at effective rates (which were also the contracted rates) of 6.50% per annum.

23. DEFERRED INCOME

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	**12,022**	11,116
Released to profit or loss *(note i)*	**(1,362)**	(110)
Government grants received *(note ii)*	**331**	136
Exchange realignment	**(571)**	880
Balance at end of the year	**10,420**	12,022

	2018 HK$'000	2017 HK$'000
Deferred income	**10,420**	12,022
Less: Amount to be recognised as income within one year included in current liabilities	**(1,327)**	(1,320)
Amount to be recognised as income after one year	**9,093**	10,702

Notes:

(i) As at 31 December 2018 and 2017, the deferred income represents government grants received in advance from the relevant government authorities of the PRC for the development of products and production techniques. For a grant related to assets, the amount will be recognised as income over the remaining useful life of the development costs recognised for the development of product and production technique as the product and production technique is approved by the relevant government authorities. As at 31 December 2018 and 2017, the related government authorities have completed the inspection of the relevant assets and the deferred income is recognised as income on systematic basis over the useful lives of the relevant assets upon completing inspection.

(ii) During the year ended 31 December 2017, the Group received certain government subsidiaries with an aggregate amount of RMB118,000 in advance (approximately HK$136,000) for the purpose of obtaining certain professional certification and fulfilling certain indicators set out by the relevant government authorities on number of patents registered by the Group. For grants related to expenses, the amounts will be recognised as income as the conditions of the grants have been fulfilled. The Group will be entitled to the government grants upon confirmation by the relevant government authorities that conditions attached to the government grants, mainly including, but not limited to requirement set out by the relevant government authorities as to professional certifications obtained by the Group, number of research and development staffs employed by the Group, number of patents registered by the Group, have been fulfilled. Since the Group has not yet fulfilled the conditions attaching to the government grants as at 31 December 2018, the Group recognised the government grants as deferred income and the amounts will be recognised as other income when the Group fulfill the conditions and obtain the confirmation from the relevant government authorities in 2019.

For the amounts received during the year ended 31 December 2018, the conditions of the grants have been fulfilled and have started to be recognised as income as described in note (i).

The government grants are one-off and non-recurring in nature.

24. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 21 February 2017 (date of incorporation) and 31 December 2017	38,000,000	380
Increase in authorised share capital on 30 May 2018 *(note iii)*	1,962,000,000	19,620
At 31 December 2018	**2,000,000,000**	**20,000**
Issued and fully paid:		
At 21 February 2017 (date of incorporation)	1	– *
Allotment of shares on 1 March 2017 *(note i)*	999	– *
Allotment of shares on 25 July 2017 *(note ii)*	1,000	– *
At 31 December 2017	2,000	– *
Issue of shares by capitalisation of share premium account *(note iv)*	509,998,000	5,100
Issue of new shares *(note v)*	195,500,000	1,955
At 31 December 2018	**705,500,000**	**7,055**

* *Less than HK$1,000*

Notes:

(i) On 1 March 2017, Chows Electronics (as vendor) and the Company (as purchaser) entered into a sale and share swap agreement whereby the Company agreed to purchase, and Chows Electronics agreed to sell, the entire issued share capital of Niche-Tech BVI. As settlement of the consideration, the Company allotted and issued 999 new shares, credited as fully paid, to Chows Electronics, who nominated BVI Holdings to receive such shares.

(ii) On 25 July 2017, in consideration of HK$21,000,000, HK$30,000 and HK$8,970,000 being payable to the Company by BVI Holdings, Professor Chow and Mr. Ma respectively, an additional of 1,000 shares were allotted and issued by the Company at premium as to 700 shares to BVI Holdings, 1 share to Professor Chow and 299 shares to Mr. Ma respectively. The total subscription monies of HK$30,000,000 were settled in cash on 27 July 2017. The proceeds of HK$10 representing the par value of the shares of the Company, were credited to the Company's share capital and the remaining proceeds of HK$29,999,990 were credited to share premium account of the Company.

24. SHARE CAPITAL *(continued)*

Notes: (continued)

(iii) On 8 May 2018, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 shares of HK$0.01 each to HK$20,000,000 divided into 2,000,000,000 shares by the creation of an additional 1,962,000,000 shares of HK$0.01 each.

(iv) Pursuant to a written resolution passed by the shareholders of the Company on 8 May 2018, the directors of the Company were authorised to, among other things, capitalise the amount of approximately HK$5,100,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par a total of 509,998,000 shares for allotment and issue to the then shareholders of the Company as at 8 May 2018 in proportion to their shareholdings in the Company.

(v) On 30 May 2018, 195,500,000 ordinary shares with a par value of HK$0.01 each of the Company were issued at a price of HK$0.58 per share.

25. RETIREMENT BENEFIT SCHEMES

The Group participates in a defined contribution scheme in Hong Kong which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes at the lower of HK$1,500 or 5% of relevant payroll costs per person each month to the MPF Scheme, which contribution is matched by the employees.

The employees of the Group in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The Company's subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit schemes to fund the benefits.

The only obligation of the Group with respect to these retirement benefit schemes is to make the specified contributions. During the years ended 31 December 2018 and 2017, the total amounts contributed by the Group to the schemes and costs charged to the profit or loss and capitalised as intangible assets represent contributions paid or payable to the schemes by the Group. The retirement benefit scheme contributions made by the Group amounted to HK$3,576,000 (2017: HK$3,363,000) for the year ended 31 December 2018.

26. OPERATING LEASES

The Group as lessee

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

	2018	2017
	HK$'000	HK$'000
Minimum lease payments under operating leases:		
Within one year	**3,266**	2,588
In the second to fifth year inclusive	**8,475**	8,114
More than five years	**10,614**	12,965
	22,355	23,667

Operating lease payments represent rentals payable by the Group for factory premises and office properties. Leases are negotiated and rentals are fixed for a range of 1 to 23 years.

27. CAPITAL COMMITMENTS

	2018	2017
	HK$'000	HK$'000
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of:		
– intangible assets	**251**	511
– plant and equipment	**534**	4,512
	785	5,023

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders 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 the 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 the capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through new issued shares, issue of new debts or the redemption of existing debts.

29. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Amortised cost	**150,658**	–
Loans and receivables (including cash and cash equivalents)	**–**	70,729
Financial liabilities		
Amortised cost	**21,904**	30,043

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables and deposits, bank deposits, bank balances and cash, trade and other payables and bank borrowings.

Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Certain of the Group's trade and other receivables, bank deposits, bank balances and cash and trade and other payables are denominated in currencies other than the functional currencies of the respective group entities, which exposes the respective group entities to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	Assets		Liabilities	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
US$	**457**	1,216	**1,018**	1,227
RMB	**2,487**	469	**–**	–
HK$	**704**	556	**160**	–

29. FINANCIAL INSTRUMENTS (continued)

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

Market risk *(continued)*

Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the fluctuation of foreign exchange rates of US$, RMB and HK$.

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% is the sensitivity rate used in the management's assessment of the reasonably possible change in the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of each of the reporting periods for a 5% change in the functional currencies of the relevant group entities. A positive (negative) number below indicates a decrease/an increase in post-tax profit where the functional currencies of the relevant group entities strengthen 5% against the relevant foreign currencies. For a 5% weakening of the functional currencies of the relevant group entities, there would be an equal and opposite impact on the post-tax profit.

	2018	2017
	HK$'000	HK$'000
Impact on post-tax profit		
RMB	**104**	20
HK$	**22**	213

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the relevant years.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings as adjusted in notes 19(b) and 22 due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease in variable-rate bank borrowings are used and represents management's assessment of the reasonably possible change in interest rates. The exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant in the view of low interest rate and therefore the sensitivity analysis is not presented.

29. FINANCIAL INSTRUMENTS (continued)

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

Market risk *(continued)*

Interest rate risk (continued)

Sensitivity analysis (continued)

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by HK$58,000 (2017: HK$83,000).

Credit risk and impairment assessment

As at 31 December 2018, the financial assets whose carrying amounts best represent the maximum exposure to credit risk.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets except that the credit risk associated with bills receivables is mitigated because settlement of certain bills receivables issued by reputable financial institutions.

Trade and bills receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 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 and bills receivables individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other receivables, bank deposits and bank balances

The credit risks on bank deposits and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 94% (31 December 2017: 98%) of the total trade receivables as at 31 December 2018.

The Group has concentration of credit risk as 10% (2017: 11%) and 37% (2017: 35%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

29. 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:

Internal credit rating	Description	Trade and bills receivables	Other financial assets
Low risk	The debtor has historically made payments on time, the exposure at default is still current and payment not expected yet.	Lifetime ECL - not credit-impaired	12-month ECL
Watch list	The debtor has historically failed to make payments within the credit term granted. It may face major ongoing uncertainties that could lead to the obligor's inadequate capacity to meet its financial commitments.	Lifetime ECL - not credit-impaired	12-month ECL
Doubtful	The debtor has past due exceeding the credit period granted. It has minimal capacity for timely payment of financial commitments, and increased vulnerability to near term adverse changes in financial and economic conditions. Its ability to pay will depend on favourable condition to the business and economic environment and current ongoing relationship.	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating 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

29. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment *(continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Internal credit rating	12-month or lifetime ECL	Gross carrying amount 2018 HK$'000
Financial assets at amortised costs			
Bank deposits	Low risk	12-month ECL	**60,096**
Bank balances	Low risk	12-month ECL	**15,410**
Other receivables and deposits	Low risk	12-month ECL	**378**
Trade receivables	*(Note)*	Lifetime ECL (provision matrix)	**57,202**
	Loss	Credit impaired	**1,116**
Bills receivables	*(Note)*	Lifetime ECL (provision matrix)	**18,404**

Note: For trade and bills receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

Provision matrix – internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk for trade and bills receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of HK$1,116,000 as at 31 December 2018 were assessed individually.

29. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment *(continued)*

Provision matrix – internal credit rating (continued)

Gross carrying amount

Internal credit rating	Average loss rate	Trade receivables HK$'000
Low risk	0.10%	12,563
Watch list	2.15%	37,614
Doubtful	6.28%	7,025
		57,202

Internal credit rating	Average loss rate	Bills receivables HK$'000
Low risk	0.04%	13,774
Watch list	0.50%	4,630
		18,404

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided an impairment allowance of HK$121,000 and HK$4,000 for trade and bills receivables respectively, based on the provision matrix.

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

29. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment *(continued)*

Provision matrix – internal credit rating (continued)

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 31 December 2017 under HKAS 39	–	1,458	1,458
Adjustment upon application of HKFRS 9	1,273	–	1,273
As at 1 January 2018 – As restated	**1,273**	**1,458**	**2,731**
Impairment losses recognised	**1,317**	**–**	**1,317**
Impairment losses reversed	**(1,090)**	**(102)**	**(1,192)**
Amounts written off as uncollectible	**–**	**(177)**	**(177)**
Exchange adjustments	**(60)**	**(63)**	**(123)**
As at 31 December 2018	**1,440**	**1,116**	**2,556**

Receivables for which an impairment provision was recognised were written off against the provision when the outstanding balances were uncollectible. None of the trade receivables that have been written off is subject to enforcement activities.

Liquidity risk

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

The following tables detail the Group's and the Company's remaining contractual maturity for their financial liabilities. The tables have 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 borrowings 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.

The tables include 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.

29. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk *(continued)*

Liquidity tables

	Weighted average effective interest rate	On demand or less than 1 month	1 month to 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018						
Non-derivative financial liabilities						
Trade and other payables	–	**6,278**	**1,415**	**425**	**8,118**	**8,118**
Variable-rate bank borrowings	4.96	**13,786**	**–**	**–**	**13,786**	**13,786**
		20,064	**1,415**	**425**	**21,904**	**21,904**
As at 31 December 2017						
Non-derivative financial liabilities						
Trade and other payables	–	6,604	746	–	7,350	7,350
Fixed-rate bank borrowings	6.50	2,884	–	–	2,884	2,884
Variable-rate bank borrowings	3.77	19,809	–	–	19,809	19,809
		29,297	746	–	30,043	30,043

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

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 undiscounted principal amounts of these bank borrowings amounted to HK$13,786,000 (2017: HK$22,693,000).

29. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk** (continued)*

Liquidity tables (continued)

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, details of which are set out in the table below:

	Less than 1 month	1 month to 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2018	**6,414**	**6,136**	**1,330**	**13,880**	**13,786**
31 December 2017	2,509	14,871	5,459	22,839	22,693

(c) Fair value measurements of financial instruments

The management considers that the carrying amounts of the financial assets and financial liabilities of the Group recorded at amortised cost in the consolidated financial statements at the end of the reporting period approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The tables below detail changes in the Group's liability 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 from financing activities:

	Accrued issue costs (included in trade and other payables) HK$'000	**Bank borrowings** HK$'000
At 1 January 2017	93	155,380
Operating cash flows *(note i)*	–	12,806
Financing cash flows *(note ii)*	(2,605)	(133,907)
Non-cash changes		
Finance costs	–	3,792
Settlement through bills receivables	–	(15,685)
Exchange realignment	–	307
Listing cost accrued	2,869	–
At 31 December 2017	357	22,693
Operating cash flows *(note i)*	–	(2,942)
Financing cash flows *(note ii)*	(5,490)	(9,598)
Non-cash changes		
Finance costs	–	633
Settlement through bills receivables *(note 31)*	–	2,942
Exchange realignment	–	58
Issued costs accrued	5,133	–
At 31 December 2018	**–**	**13,786**

Notes:

(i) The amounts represented the cash flows from bills discounted to the bank, which is included in the movement in bills receivables under operating activities in the consolidated statement of cash flows.

(ii) For bank borrowings, the amounts represented the cash flows from bank borrowings make up the net amount of bank borrowings raised, repayments of bank borrowings and interests paid in the consolidated statement of cash flows.

For accrued expenses, the amount represented the listing expenses which will be contributed into equity the foreseeable future.

31. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2018, short-term borrowings drawn on discounted bills with recourse of HK$2,942,000 (2017: HK$15,685,000) have been settled through bills receivables discounted to the relevant banks.

32. RELATED PARTY DISCLOSURES

(a) Related party transactions

Same as disclosed in other notes, during the year ended 31 December 2018 and 2017, the Group entered into the following transactions with related parties:

Name of related party	**Nature of transaction**	**2018 HK$'000**	2017 HK$'000
Chows Electronics *(note)*	Interest income	–	3,199

Note: Professor Chow is the director and also the controlling shareholder of the Company.

During the year ended 31 December 2017, the Group utilised a land and building in Hong Kong beneficially owned by S.C. Chow & Associates Limited, a company in which Professor Chow has controlling interest, as its central administrative office free of charge. The Group also utilised a technical knowhow beneficially owned by Chows Electronics for production free of charge.

The arrangement was ceased in May 2017.

(b) Security and guarantees provided by related parties

As at 31 December 2017, the Group's bank borrowings amounting to HK$19,809,000 were secured by properties held by Professor Chow and spouse of Professor Chow and entities controlled by Professor Chow. They were also guaranteed by corporate guarantees provided by entities controlled by Professor Chow and personal guarantees provided by (i) Professor Chow and Mr. Chow and/or (ii) Mr. Ma and Mr. Ma Kiu Sang, the son of Mr. Ma.

The arrangement was ceased in May 2018 upon listing of the Company.

(c) Share of banking facilities with a related party

During the year ended 31 December 2017, the Group shared certain banking facilities with limit up to an aggregate amount of HK$76,000,000 granted by a bank with Chows International Investment Limited, a company in which Professor Chow has controlling interest.

The arrangement was released in July 2017 upon repayment of such bank borrowings.

32. RELATED PARTY DISCLOSURES (continued)

(d) Compensation of key management personnel

	2018	2017
	HK$'000	HK$'000
Short-term benefits	**3,581**	1,304
Post-employment benefits	**181**	70
	3,762	1,374

The remuneration of key management personnel is determined having regard to the performance of the individuals.

33. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to the Company's share option scheme (the "Scheme") adopted on 8 May 2018 for the primary purpose of providing incentives to directors, eligible employees, consultant or adviser of the Group, the directors, employees, consultant or adviser of the Group may, at the discretion of the directors, be granted options (the "Options") to subscribe for shares in the Company at a price determined by its directors, but shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares on the date of grant of the option.

Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

Unless terminated by resolution in general meeting, the Scheme will remain in force for a period of ten years from the date of the listing of the shares in the Company on the Stock Exchange. Options granted must be taken up not later than 30 days after the date of grant. A consideration of HK$1 is payable on acceptance of the offer of grant of an option.

The exercisable period of an option, which shall not exceed 10 years from the date of grant, is determined by the Board of Directors of the Company at their discretion.

No options have been granted since its adoption.

34. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at 31 December		Principal activities
				2018	2017	
Directly held						
Niche-Tech BVI	BVI 2 January 2014	Hong Kong	Ordinary shares US$1	**100%**	100%	Investment holding
Indirectly held						
Niche-Tech Holdings	Hong Kong 9 May 2012	Hong Kong	Ordinary shares HK$125,000,000	**100%**	100%	Investment holding
Niche-Tech International	BVI 16 March 2012	Hong Kong	Ordinary shares US$1	**100%**	100%	Investment holding
Niche-Tech Shantou 汕頭市駿碼凱撒有限公司	The PRC 29 April 2006	The PRC	Registered capital RMB100,000,000	**100%**	100%	Development, manufacture and sales of semiconductor packaging materials
Niche-Tech (HK)	Hong Kong 26 April 2012	Hong Kong	Ordinary shares HK$36,000,000	**100%**	100%	Trading of semiconductor packaging materials

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSET		
Investment in a subsidiary	**93,936**	98,960
CURRENT ASSETS		
Other receivables, prepayments and deposits	**211**	4,293
Amounts due from subsidiaries	**112,493**	20,303
Bank balances	**37**	–
	112,741	24,596
CURRENT LIABILITIES		
Other payables and accruals	**576**	1,786
Amounts due to subsidiaries	**2,262**	3,918
	2,838	5,704
NET CURRENT ASSETS	**109,903**	18,892
NET ASSETS	**203,839**	117,852
CAPITAL AND RESERVES		
Share capital	**7,055**	– *
Reserves	**196,784**	117,852
	203,839	117,852

* Less than HK$1,000

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Movement of the Company's reserves

	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 21 February 2017 (date of incorporation)	–	–	–	(389)	(389)
Loss for the period	–	–	–	(10,802)	(10,802)
Exchange differences arising on translation to presentation currency	–	–	5,965	–	5,965
	–	–	5,965	(10,802)	(4,837)
Issue of shares	30,000	–	–	–	30,000
Effect of reorganisation *(note)*	–	93,078	–	–	93,078
At 31 December 2017	30,000	93,078	5,965	(11,191)	117,852
Loss for the period	–	–	–	(9,483)	(9,483)
Exchange differences arising on translation to presentation currency	–	–	(9,700)	–	(9,700)
	–	–	(9,700)	(9,483)	(19,183)
Issue of new shares *(note 24)*	111,435	–	–	–	111,435
Transaction costs attributable to issue of new shares	(8,220)	–	–	–	(8,220)
Issue of shares by capitalisation of share premium account	(5,100)	–	–	–	(5,100)
At 31 December 2018	**128,115**	**93,078**	**(3,735)**	**(20,674)**	**196,784**

Note: On 1 March 2017, Chows Electronics transferred the entire issued share capital of Niche-Tech BVI to the Company. As settlement of the consideration, the Company allotted and issued 999 new shares to Chows Electronics at HK$0.01 each share. The amount represented the difference between the net asset value of Niche-Tech BVI and the share capital issued by the Company.

36. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year presentation.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last four financial years, as extracted from this annual report and the accountant's report as contained in the Prospectus, is set out below.

	For the year ended 31 December			
	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000
Consolidated statement of profit or loss				
Revenue	**184,439**	180,522	156,409	110,125
Gross profit	**40,813**	37,680	32,854	22,622
Profit before taxation	**3,044**	4,401	12,252	4,400
Income tax expense	**(2,694)**	(2,409)	(2,332)	(512)
Profit for the year	**350**	1,992	9,920	3,888
Non-HKFRS measures				
Net profit excluding listing expenses	**10,751**	12,703	10,743	3,888
Consolidated statement of financial position				
Non-current assets	**101,023**	94,777	73,605	75,081
Current assets	**174,105**	97,308	208,702	217,044
Current liabilities	**(28,907)**	(38,299)	(126,832)	(177,000)
Net current assets	**145,198**	59,009	81,870	40,044
Non-current liabilities	**(9,093)**	(10,702)	(50,316)	(11,785)
Net assets	**237,128**	143,084	105,159	103,340