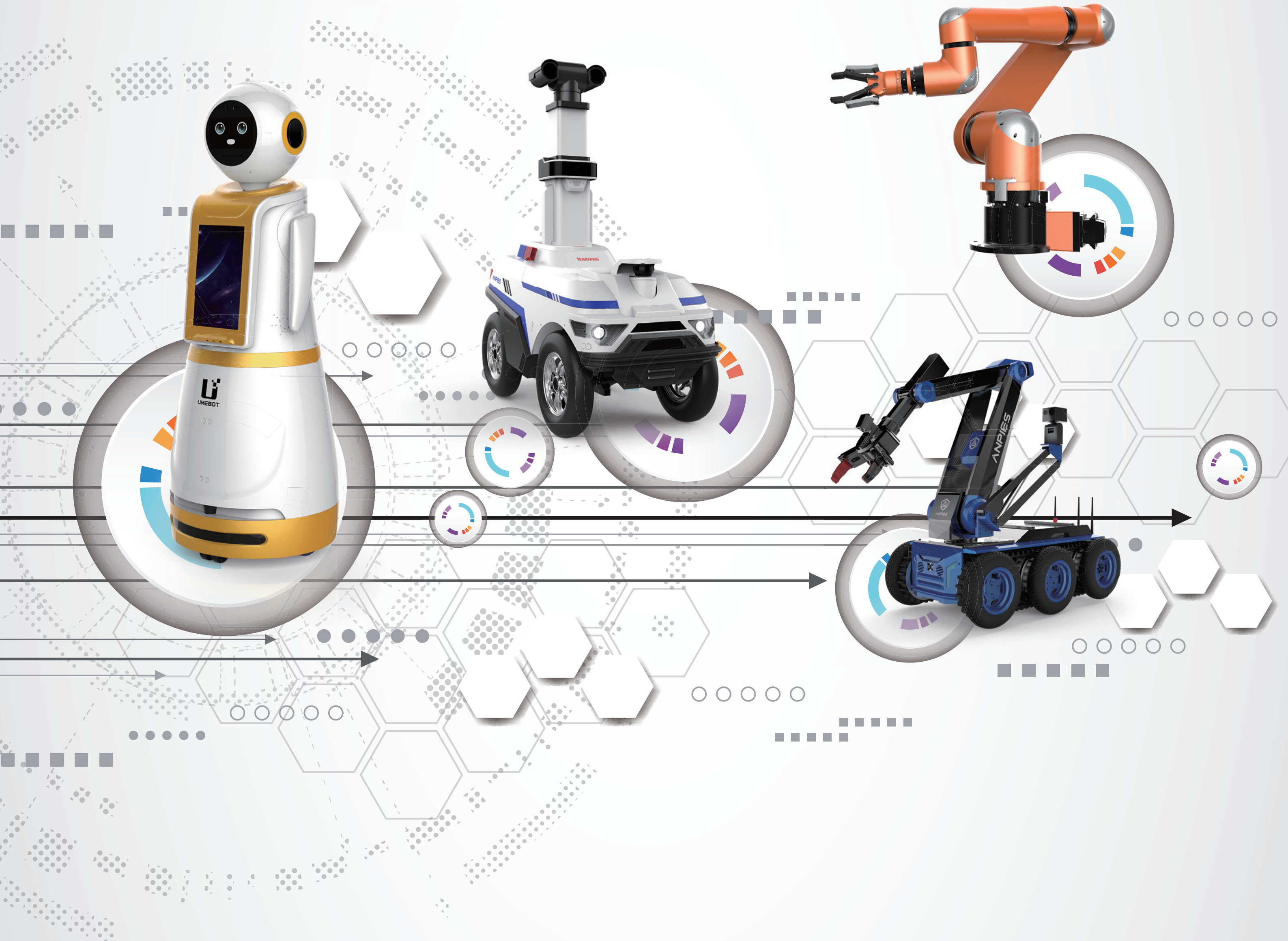
# SuperRobotics Limited
# 超人智能有限公司

(formerly known as SkyNet Group Limited)
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

Stock Code: 8176




2018
Annual Report

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*This annual report, for which the directors (the "**Directors**" and each the "**Director**") of SuperRobotics Limited (the "**Company**", together with its subsidiaries, the "**Group**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this annual 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 annual report misleading.*

*This annual report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.superrobotics.com.hk.*

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# COMPANY INFORMATION

## BOARD OF DIRECTORS

### *Executive Directors*

Mr. Su Zhituan *(Chairman) (appointed as Chairman on 1 June 2018)*
Mr. Sun Ziqiang *(Vice-Chairman) (appointed as Vice-Chairman on 20 August 2018)*
Mr. Chen Min *(appointed on 1 June 2018)*
Dr. Andrew Goldenberg
Mr. Zhang Chong *(resigned on 20 August 2018)*
Mr. Zhang Chongdi *(resigned on 1 June 2018)*
Mr. Cai Zhaoyang *(resigned on 25 May 2018)*

### *Non-executive Directors*

Mr. Cheng Yu *(appointed on 20 August 2018)*

### *Independent non-executive Directors*

Mr. Tam B Ray, Billy
Mr. Chu Kin Wang, Peleus
Mr. Tse Joseph *(resigned on 20 August 2018)*
Mr. Xie Zhichun *(appointed on 20 August 2018)*

## COMPANY SECRETARY

Mr. Yang Chuen Liang, Charles

## COMPLIANCE OFFICER

Mr. Zhang Chong *(resigned on 8 March 2019)*
Mr. Su Zhituan *(appointed on 8 March 2019)*

## AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

## AUTHORISED REPRESENTATIVES

Mr. Zhang Chong *(resigned on 1 June 2018)*
Mr. Zhang Chongdi *(resigned on 1 June 2018)*
Mr. Su Zhituan *(appointed on 1 June 2018)*
Mr. Chen Min *(appointed on 1 June 2018)*

## REMUNERATION COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Zhang Chong *(resigned on 1 June 2018)*
Mr. Tse Joseph *(resigned on 20 August 2018)*
Mr. Su Zhituan *(appointed on 1 June 2018)*
Mr. Xie Zhichun *(appointed on 20 August 2018)*

## AUDIT COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Tam B Ray, Billy
Mr. Tse Joseph *(resigned on 20 August 2018)*
Mr. Xie Zhichun *(appointed on 20 August 2018)*

## NOMINATION COMMITTEE

Mr. Chu Kin Wang, Peleus *(Chairman)*
Mr. Zhang Chong *(resigned on 1 June 2018)*
Mr. Tam B Ray, Billy
Mr. Su Zhituan *(appointed on 1 June 2018)*

## PRINCIPAL BANKERS

China CITIC Bank International Limited

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 4702
Far East Finance Centre
16 Harcourt Road, Admiralty
Hong Kong

## LEGAL ADVISORS

**As to Hong Kong Law**
Michael Li & Co

**As to Bermuda Law**
Conyers Dill and Pearman

## WEBSITE

www.superrobotics.com.hk

## STOCK CODE

8176

# CHAIRMAN'S STATEMENT

Dear Shareholders,

I present herewith the audited consolidated financial statements of the Group for the year ended 31 December 2018.

As affected by the protracted sluggishness of tourism industry in Hong Kong, slowdown in economic growth in China and the depreciation of the exchange rate of Renminbi against US dollars, the Group's sale of beauty products and provision of therapy services (collectively the "**Beauty Business**") did not have any significant growth. Although breakthrough growth in Beauty Business is not expected in short term, the Group has actively taken a series of responsive measures such as reshaping our sales model, optimizing the offerings and reasonably adjusting the working space. On the backdrop of growing middle-class population and rising personal health awareness, coupled with the increasing demand for high value-added services in China, the Group has confidence in the long-term prospects of beauty and therapy market.

For the engineering products, the Group offers in-flight WLAN and WIFI systems, and robotics products. For the provision of engineering related services, the Group provides research and development, design, production, sales, equipment installation, support and maintenance service for WLAN and WIFI systems as well as robotics and automation systems with multi-applications.

In 2018, the Group, having obtained patents and setting industry standards through overseas research and development platform, has strengthened its competitive advantage in robotic technology and has expanded its business scope. It has also driven the commercialization of its products at steady pace through domestic platforms, upon which large-scale of civil application can be expected. In respect of police use, with its outstanding products and technology, the Group has been admitted as supply items of the "police equipment procurement centre agreement*"(警用裝備採購中心協議) of the Ministry of Public Security for 2018 to 2019, indicating the high recognition of our products, which further increased the influence of the Group's products in the market. The Group has actively stepped up its efforts in tapping security robotics market. The security robotic launched by the Group are widely used in areas where pedestrian flow is heavy, including airports, high speed railway termini, communities, public squares and custom buildings, providing protection at intelligent transportation stations, supporting the security in public areas and contributing to preliminary establishment of branding and reputation. In mid-August 2018, the Group developed and rolled out logistics and distribution robotics, providing distribution services for customers from hotels, high-end offices and industrial parks. Such robotics was officially launched into the market in the third quarter, which boosted the market presence of logistics and distribution robotics. On 5 September 2018, Anzer, a company under the Group joined Shenzhen General Chamber of Commerce, which acted as a value-added service platform for internal and external exchange, market expansion as well as interaction and cooperation. Through which, the Group's connections with industry clients have been enhanced, creating better conditions for the realization of resources complementation, cooperation and win-win situation. On 15 December 2018, the Group attended the Exchange Session and Exhibition of National Public Security for the Outstanding Woks of Painting, Calligraphy and Photography*(全國公安書畫攝影作品交流會暨優秀作品展)with its patrolling robots. Its exclusive invert arm structure enables its robotics to complete tasks with higher efficiency at complicated scenes, which receives high recognition from the representatives of national security authorities and high expectations on the Group's robotics. On 28 December 2018, the Group was honored as the top ten brands of national public security police equipment. The consistent performance and the extendibility of functions of the Group's products received high acclamation from users. In 2018, the Group was invited to attend various national forums and conferences, which its robotics were showcased frequently, demonstrating endorsements at national level.

In addition to its own technology and product edges, the Group has been exploring the cooperation with other institutions proactively. On 6 July 2018, Anzer entered into strategic cooperation with Shanghai Gaussian Automation Technology Development Co., Ltd to further promote the standardization and popularization of cleaning robots in related industries, bringing the benefits of cost-saving, efficiency enhancement and stronger product competitiveness. On 7 July 2018, Anzer entered into a strategic cooperative partner agreement with Unicomp Technology Co., Ltd., the products developed under which with the combination of Anzer's explosive ordnance disposal robots and Unicomp's X-ray detection technology will facilitate the efficient operation of the public security authorities for upholding the law and order in society.

# CHAIRMAN'S STATEMENT

On 15 August 2018, the Group attended World Robot Conference 2018, the largest international conference in the robotics sector in China, with its two major product lines, being police robots and service robots. The Group communicated with a huge pool of industry peers and partners in respect of the development prospect of artificial intelligence and robotics industry, aimed to create a win-win model for long-term cooperation with jointed hands.

At last, I would like to thank our board of Directors (the "**Board**"), management and staff for their contribution to the Group. I would also like to extend my sincere gratitude to our shareholders, business partners, customers and suppliers for their continuous supports.

**Su Zhituan**
*Executive Director and Chairman*

26 March 2019, Hong Kong

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is principally engaged in the sale of beauty products and provision of therapy services (collectively, the "**Beauty Business**"), as well as the provision of engineering products and related services (the "**Engineering Business**"). For the sale of beauty products, the Group offers a variety of beauty products under the brand name "Evidens de Beauté", and a variety of medical skincare products, including the brand "Activa". For the provision of therapy services, the Group operates a medical skincare centre at Soundwill Plaza in Causeway Bay.

For the engineering products, the Group offers WLAN and WIFI systems, and robotic products. For the provision of engineering related services, the Group provides equipment installation, support and maintenance services for WLAN and WIFI systems as well as robotics and automation systems.

Despite facing increased competition in the Hong Kong market, the performance of the Beauty Business as a whole has met the expectation of the Board. The revenue derived from the sale of beauty products and the provision of therapy services rendered has reduced by 16.3% and has increased 16.4% to HK$3.5 million and HK$49.3 million, respectively for the year ended 31 December 2018. However, the gross profit generated from the Beauty Business was increased by 10.7% to HK$24.1 million for the year.

For the Engineering Business, during the financial year of 2018, the Group continued to develop and prefect its robotic products. The Group has also driven the commercialization of its products at steady pace through domestic platforms, upon which large-scale of civil application can be expected. In respect of police use, with its outstanding products and technology, the Group has been admitted as supply items of the "police equipment procurement centre agreement" of the Ministry of Public Security for 2018 to 2019, indicating the high recognition of its products, which further increased the influence of the Group's products in the market. On 15 August 2018, the Group attended World Robot Conference 2018, the largest international conference in the robotics sector in China, with its two major product lines, being police robots and service robots. The Group has also entered into several cooperative agreements with industry partners, such as Shanghai Gaussian Automation Technology Development Co., Ltd and Unicomp Technology Co., Ltd. For the year under review the revenue of the Engineering Business has decreased by 66.2% and contributed a total revenue of HK$10.9 million to the total turnover of the Group. Also, the Engineering Business has generated a gross loss of HK$4.4 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of approximately HK$63.7 million (for the financial year ended 31 December 2017: approximately HK$78.8 million), of which approximately HK$3.5 million (for the financial year ended 31 December 2017: approximately HK$4.2 million), HK$49.3 million (for the financial year ended 31 December 2017: approximately HK$42.4 million) and HK$10.9 million (for the financial year ended 31 December 2017: HK$32.2 million) were generated from the sale of beauty products, provision of therapy services and the Engineering Business respectively.

The Beauty Business in aggregate contributed approximately HK$52.8 million to the turnover of the Group, representing approximately 82.9% of the turnover, of which approximately HK$3.5 million and HK$49.3 million were generated from the sale of beauty products and provision of therapy services respectively. The Engineering Business contributed approximately HK$10.9 million to the turnover of the Group, representing approximately 17.1% of the turnover.

For the year ended 31 December 2018, the gross profit was approximately HK$19.7 million and the gross profit margin was approximately 30.9% (for the financial year ended 31 December 2017: gross profit margin of 38.5%). The Beauty Business in aggregate contributed approximately HK$24.1 million gross profit to the Group, while the Engineering Business recorded a gross loss of approximately HK$4.4 million. The decrease in gross profit margin is mainly due to decrease in gross profit generated by Engineering Business as the Engineering Business has generated a gross profit of HK$14.1 million compared with a gross loss of HK$4.4 million in 2018.

During the year under review, other income was approximately HK$1.9 million (for the financial year ended 31 December 2017: approximately HK$0.8 million). The other income was mainly attributable to interest income on bank deposits of HK$0.9 million and sundry income of HK$1.0 million.

Net other gains or losses is approximately a gain of approximately HK$1.0 million, which was mainly attributable to the gain on disposal of fixed assets of approximately HK$0.1 million and change in fair value of investment in listed securities amounted to approximately HK$0.9 million.

The selling and distribution costs for the year ended 31 December 2018 was approximately HK$15.7 million (for the financial year ended 31 December 2017: approximately HK$8.6 million). The selling and distribution costs of the Beauty Business and the Engineering Business accounted for approximately 31.2% or HK$4.9 million and approximately 68.8% or HK$10.8 million of the total selling and distribution costs, respectively. The increase in selling and distribution costs was mainly due to a increase in marketing cost incurred by Engineering Business amounting to HK$3.9 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

The administrative expenses for the year ended 31 December 2018 was approximately HK$136.0 million (for the financial year ended 31 December 2017: approximately HK$122.7 million). The administrative expenses of the Beauty Business accounted for approximately HK$7.2 million or 5.3% of the total administrative expenses. Such expenses mainly comprised staff costs of approximately HK$4.4 million, depreciation expenses of approximately HK$0.4 million, rental expenses of approximately HK$0.7 million and other administrative expenses of HK$1.7 million. The administrative expenses of the Engineering Business accounted for approximately HK$106.7 million or 78.5% of the total administrative expenses. Such expenses mainly comprised staff costs of approximately HK$40.8 million, overseas travelling expenses of approximately HK$2.5 million, research expense of approximately HK$22.1 million, repair and maintenance expenses of approximately HK$1.6 million, rental expenses of approximately HK$7.4 million, share-based compensation of approximately HK$7.6 million and other administrative expenses of approximately HK$24.7 million. In addition, the Group also incurred administrative expenses relating to general corporate activities amounting to approximately HK$22.1 million or 16.3% of the total administrative expenses. The general corporate administrative expenses mainly consists of legal and professional expenses amounted to approximately HK$3.6 million for the purposes of, among others, share subscription and acquisition of a subsidiary and audit of the financial statements of the Company, directors' remuneration amounted to approximately HK$10.2 million, rental expenses of approximately HK$2.8 million, staff cost of approximately HK$2.6 million and other listing and administrative expenses of approximately HK$2.9 million.

The finance costs for the year ended 31 December 2018 of approximately HK$15,000 (for the financial year ended 31 December 2017: approximately HK$6,000) was mainly attributable to bank charges.

The consolidated loss amounted to approximately HK$127.7 million for the year ended 31 December 2018 (for the financial year ended 31 December 2017: approximately HK$97.1 million), of which a profit of approximately HK$10.7 million (for the financial year ended 31 December 2017: a loss of approximately HK$4.0 million), a loss of HK$119.0 million (for the financial year ended 31 December 2017: HK$79.6 million) and a loss of HK$19.4 million (for the financial year ended 31 December 2017: a profit of HK$21.5 million) were incurred and generated by the Beauty Business, the Engineering Business and general corporate activities, respectively.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the total borrowings of the Group was approximately HK$53,000 (as at 31 December 2017: approximately HK$1.6 million). The total borrowings and other financial liabilities are repayable within one year.

As at 31 December 2018, the Group had total assets of approximately HK$258.8 million (31 December 2017: approximately HK$383.3 million), including cash and cash equivalents of approximately HK$43.6 million (31 December 2017: approximately HK$80.4 million).

During the year under review, the Group financed its operation with internally generated cash flows, the balance of proceeds derived from the allotment and issue of the subscription shares pursuant to the subscription agreement dated 17 February 2015 (the "**2015 Subscription**"), net proceeds derived from the placing of 35,416,666 new shares under general mandate which was completed on 14 December 2016 and net proceeds from the subscription of 21,000,000 new shares, which was completed on 4 August 2017.

## CAPITAL STRUCTURE

On 11 October 2018, the Company received a conversion notice from Tai Dong New Energy Holdings Limited ("Tai Dong"), a company wholly-owned by Mr. Su Zhituan, the controlling shareholder, an executive director and the chairman of the Board of the Company to convert 30,000,000 Preferred Shares into 30,000,000 Ordinary Shares. Pursuant to the terms of the Preferred Shares, 30,000,000 Conversion Shares were allotted and issued by the Company to Tai Dong on 11 October 2018, and after such conversion, the Company has no more Preferred Shares in issue.

As at 31 December 2018, the Company's total number of issued ordinary shares and issued convertible preferred shares were 506,219,666 (as at 31 December 2017: 476,219,666) and Nil (as at 31 December 2017: 30,000,000), respectively.

As at 31 December 2018, the total borrowings of the Group was approximately HK$53,000 (as at 31 December 2017: approximately HK$1.6 million), representing a borrowing from Koffman Investment Limited, which is unsecured, non-interest bearing and repayable within one year.

## USE OF NET PROCEEDS FROM ISSUANCE OF ORDINARY SHARES

Net proceeds from the allotment and issue of 345,000,000 new shares and 30,000,000 convertible preferred shares of the Company, which was completed on 6 November 2015, were approximately HK$135.0 million and, as at 31 December 2018, the Company had utilised approximately HK$31.7 million for acquiring in-flight WIFI and connection equipment and approximately HK$92.6 million for the development of the Engineering Business. The Company intends to apply the remaining balance of approximately HK$10.7 million as general working capital. The remaining balance is expected to be fully utilised within 12 months period from 26 March 2019.

Net proceeds from the placing of 35,416,666 new shares, which was completed on 14 December 2016 were approximately HK$166.2 million and, as at 31 December 2018, the Company had utilised approximately HK$46.3 million to settle the shareholder's loan due by Engineering Services Inc. ("**ESI**"). Other than the settlement of the shareholder's loan due by ESI, the Company also utilised HK$98.9 million and HK$21.0 million for the general working capital of the Beauty Business and the Engineering Business and the purchase of components and material for the Engineering Business respectively.

Net proceeds from the Subscription which was completed on 4 August 2017 were HK$130.0 million and, as at 31 December 2018, the Company had utilised approximately HK$27.9 million and HK$80.0 million for construction and renovation of production plants and general working capital respectively. The Company intends to apply the remaining balance of approximately HK$22.1 million for construction of production plants and general working capital. The remaining balance is expected to be fully utilised within 12 months period from 26 March 2019.

## GEARING RATIO

The gearing ratio, expressed as percentage of total borrowings to equity attributable to owners of the Company, was approximately 0.03% (31 December 2017: approximately 0.5%). The improvement of gearing ratio was mainly due to repayment of the borrowings during the year under review.

## PLEDGE OF ASSETS

As at 31 December 2018, the Group's restricted bank deposits of approximately HK$18.7 million (as at 31 December 2017: approximately HK$18.7 million) were deposits held at banks in respect of credit card and instalment sales arrangement for the sale of beauty products and provision of therapy services business.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FOREIGN EXCHANGE RISK

The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

## COMMITMENTS

As at 31 December 2018, the Group had operating lease commitments and capital commitments of approximately HK$22.4 million (as at 31 December 2017: approximately HK$9.1 million) and HK$Nil (as at 31 December 2017: HK$Nil), respectively.

## CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities.

## EMPLOYEES

As at 31 December 2018, the Group had 192 employees (as at 31 December 2017: 201 employees). Total staff costs including directors' emolument for the year ended 31 December 2018 amounted to approximately HK$77.2 million (for the financial year ended 31 December 2017: approximately HK$73.6 million). Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme, the employees in the PRC joined the national statutory social security insurance scheme and the employees in Canada joined the government-mandated retirement plan.

## SIGNIFICANT INVESTMENT

The Group did not make any significant investment during the year ended 31 December 2018.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND AFFILIATED COMPANIES

The Group did not make any material acquisition or disposal of subsidiaries, associates or affiliated companies during the year ended 31 December 2018.

## FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have any concrete plan for material investments or capital assets for the coming year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OUTLOOK

The development of the artificial intelligence (AI) industry and the emergence of AI enterprises have becoming an unstoppable trend. Since the first venture investments in AI from the U.S. in 1999, the global AI industry has been developing rapidly. It pulled in accumulated venture investments of 191.4 billion in AI sector within 18 years. Up to date, the accumulated funding raised in the U.S. has reached 97.8 billion, representing 50.10% of the total funding raised globally, followed by 63.5 billion in China, representing 33.18% of the total funding raised globally. It is estimated that the number of AI companies will exceed 1,200, with phenomenal accumulated funding reaching RMB200 billion by 2020. At present, global internet giants are promptly mapping out their presence in the sector, expressing their optimistic views towards the development of the AI sector. However, they are not the party. The China government also rolls out national policies aiming at technological fronts, ramping up disruptive technological innovations, and providing a reinforced underpinning for evolving into a nation with superb scientific and technological power, a digitalized China, and a smart society, reflecting its determination and support to the development of AI. The robust development of the robotic industry in China represents enormous potential for market expansion for the Group in the future. The construction of intelligent cities has been in full swing based upon artificial intelligent technology. The wide application of intelligent robotics covers from police use to various aspects such as services and security. The overall global penetration rate of civil security is around 10% at present, while the penetration rate of civil security in the U.S. reaches 50%. The market penetration rate of civil security in China is only 11%, reflecting the larger potentials of civil security robotics market, which is likely to the next hot sector where rapid industrialization will take place. Data suggests that the global investments in robotics and related services by 2019 are expected to be almost doubled as compared to 2015. In view of the growth rate of domestic security industry which will remain at above 10%, the market will continue to expand. The value of domestic security industry in 2018 amounted to over 600 billion. The Group's security robotics has the potential to become the major replenishment for security systems and expand into civil market for the realization of large-scale expansion.

In addition, the emphasis and determination of the China government on developing the major projects of "Core Electronic Devices, High-end Generic Chips and Basic Software"（核高基）have been reflected from the outlines of the mid and long-term national plan for the development of science and technology released by the State Council. The localization of the industry is in full speed. In terms of semi-conductor equipment, the sales of semi-conductor equipment in China reached a high level of US$8.23 billion in 2017, representing a year-on-year growth of 27%. However, the domestic production of semi-conductor equipment in China is at a very low level as limited by the core technology development. Riding on the advantages from the national policies on the major projects, the Group intends to explore the huge development potential in the future by propelling the research and development of the business focus of the industrial chain of "Core Electronic Devices, High-end Generic Chips and Basic Software", i.e. semi-conductor equipment. Based on such technology, it further aims to obtain its position in the semi-conductor equipment sector for the more extensive development vision and enormous market potential.

In October 2017, the fifth amendment to the "Operation Certification Rules for Civil Aviation Transportation Carriers with Large Airplanes" promulgated by the Civil Aviation Administration of China officially came into effect, which relaxed the rules on using portable electronic devices on flights and delegated the authority on access to WIFI services to each civil airline. The Board is of the view that such delegation implies that each civil airline is to bear corresponding safety responsibilities on their own. It is estimated that the speed of launching such service may vary among civil airlines and some small and medium-sized civil airlines may not offer WIFI services at present. Therefore, the Board is prudent and concerned about the prospect of in-flight WIFI services.

Due to the contraction of tourism sector in Hong Kong, the Board does not expect any significant growth in the Group's Beauty Business.

# DIRECTORS' PROFILE

## EXECUTIVE DIRECTORS

Mr. Su Zhituan ("**Mr. Su**"), aged 48, holds an Executive Master of Business Administration from Cheung Kong Graduate School of Business, the People's Republic of China. Mr. Su has extensive experience in business development and management. Mr. Su is the founder, chairman and president of Taidong Group Company Limited*(太東集團)("**Taidong Group**"), which principally operates business in the real estate, construction materials, natural resources, finance, investment and emerging technology sectors. He is also the chairman of each of TCL & Taidong Petrochemical Investment Company Limited*(TCL太東石化投資有限公司)and Taidong & Country Garden Investment Company Limited*(太東碧桂園投資有限公司)and a director of Huizhou Rural Commercial Bank Company Limited*(惠州農村商業銀行股份有限公司). Mr. Su was elected as the representative of the Twelfth Guangdong Province People's Congress of China and one of the awardees of the Seventh Top Ten Outstanding Youths in Guangdong Province(第七屆廣東省十大傑出青年). He is also the honorary chairman of Guangdong Charity Federation*(廣東省慈善總會).

Mr. Sun Ziqiang ("**Mr. Sun**"), aged 54, obtained a Bachelor of Computer Applied Technology from Wuhan University of Technology and a Master of Business Administration from 中歐國際工商管理學院 (China Europe International Business School) in the People's Republic of China (the "PRC"). Mr. Sun has more than 33 years of experience in corporate management, investment and risk management. He is currently an executive director and the vice-chairman of FDG Kinetic Limited (Stock Code: 378) from 11 March 2016 to November 2018. He has been holding an important position in SK Group from 2006 to 2017 and has been the president, Greater China region of SK Group to manage the business in the PRC. Mr. Sun was the president of 長城寬帶網絡服務公司 (Changcheng Kundai Internet Services Company Limited*), a subsidiary of 長城集團 (Great Wall Group*), a state-owned company from 2002 to 2006. Mr. Sun was the vice president of Great Wall Technology Company Limited, the shares of which were previously listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 2003 to 2014. He was the vice president of 諾定(中國)投資有限公司 (Nuo Ding (China) Investment Company Limited*) from 2000 to 2002. Prior to that, Mr. Sun worked at 中華人民共和國體育運動委員會(Sports Committee of the PRC*) from 1985 to 1993.

Mr. Chen Min ("**Mr. Chen**"), aged 40, holds a Master of Science in Management from Stanford University in the United States of America. Mr. Chen has more than 14 years of experience in management and investment in the technology industry. He has been the vice president of Taidong Group since 2016. He served as the general manager of the application intelligence business unit at TCL Communication Technology Holdings Limited, a company whose shares were previously listed on the Main Board of the Stock Exchange and the listing of its shares was withdrawn on 30 September 2016 from 2014 to 2016. Mr. Chen served as the business assistant to the chairman at TCL Corporation, a company whose shares are listed on the Shenzhen Stock Exchange (SZSE Stock Code: 000100.sz) from 2009 to 2013. Prior to that, he served as assistant to chief executive officer at TCL Multimedia Technology Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1070) from 2004 to 2008.

Dr. Andrew Goldenberg ("**Dr. Goldenberg**"), aged 74, was appointed as an executive director of the Company on 22 December 2016. Dr. Goldenberg has over 40 years of extensive experience and expertise in the engineering of high-tech robotics. Dr. Goldenberg has been a professor in mechanical and industrial engineering specializing in robotics and automation at the University of Toronto since 1982. Dr. Goldenberg is also the founder of Engineering Services Inc. and has been a director of Engineering Services Inc. since its incorporation. Dr. Goldenberg has also been the chief technical officer (the "**CTO**") of Engineering Services Inc. since 2015. With effect from the completion of the acquisition of Engineering Services Inc. by the Company on 25 November 2016, Dr. Goldenberg has become the CTO of the Group. Dr. Goldenberg has been and currently is a professor in the robotics and automation engineering field at various universities and/or institutions. Dr. Goldenberg holds a number of professional qualifications including Life Fellow of the Institute of Electrical and Electronic Engineers, Fellow of the American Society of Mechanical Engineerings, Fellow of the Engineering Institute of Canada, Fellow of the Canadian Academy of Engineering, Fellow of the American Association for the Advancement of Science, Member of the Professional Engineers of Ontario and Designated Consulting Engineer in Ontario.

## NON-EXECUTIVE DIRECTOR

Mr. Cheng Yu ("**Mr. Cheng**"), aged 42, obtained a Bachelor of Accountancy from Dongbei University of Finance & Economics in 1999, a Master of Business Management from Hull University in 2003 and an Executive Master of Business Administration from the Hong Kong University of Science and Technology in 2016. Mr. Cheng has more than 13 years of experience in accounting and finance. He is now the vice president of 太東集團有限公司(Taidong Holding Group Limited*) ("**Taidong**") and responsible for finance, capital and operation management and management of joint venture companies. Before joining Taidong in September 2016, he had worked for TCL 多媒體控股有限公司 (TCL Multimedia Holdings Limited*) for over 10 years with the last position as the chief financial officer of the costs centre, operation centre and research and development centre.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chu Kin Wang, Peleus ("**Mr. Chu**"), aged 54, joined the Company as an independent non-executive Director on 5 March 2012. He is also the chairman of each of the Audit Committee, the Remuneration Committee and the Nomination Committee and a member of the Special Investigation Committee. Mr. Chu has over 25 years of experience in auditing, accounting and financial management for both private and listed corporations. He graduated from the University of Hong Kong with a Master Degree in Business Administration. Mr. Chu is a fellow practising member of the Hong Kong Institute of Certified Public Accountants (FCPA (Practising)) and fellow member of the Association of Chartered Certified Accountants (FCCA). He is also an associate member of both the Institute of Chartered Secretaries and Administrators (ACIS) and the Hong Kong Institute of Chartered Secretaries (ACS). Mr. Chu has been an executive director of Chinese People Holdings Company Limited (stock code: 681), a company listed on the Main Board of the Stock Exchange, since 1 December 2008 and appointed as the deputy chairman with effect from 23 March 2015. He has been appointed as an independent non-executive director of National Agricultural Holdings Limited (stock code: 1236), a company listed on the Main Board of the Stock Exchange for the period from 25 June 2015 to 11 September 2015. Mr. Chu has also has appointed as non-executive director of Perfect Group International Holdings Limited (stock code: 3326), a company listed on the Main Board of the Stock Exchange from 19 August 2015 to 1 March 2017. He has also been an independent non-executive director of each of Tianli Holdings Group, Limited (stock code: 117), Huayu Expressway Group Limited (stock code: 1823), Flyke International Holdings Ltd. (stock code: 1998), China First Capital Group Limited (stock code: 1269), Mingfa Group (International) Company Limited (stock code: 846) and ITC Corporation Limited (stock code: 372), all of which are listed on the Main Board of the Stock Exchange, since 16 April 2007, 21 May 2009, 24 February 2010, 19 October 2011, 1 November 2016 and 8 March 2017, respectively. He also served as an independent non-executive director of Telecom Service One Holdings Limited (stock code: 8145), a company listed on the GEM of Stock Exchange from 30 April 2013 to 27 December 2017 and has been appointed as an independent non-executive director of Madison Wine Holdings Limited (stock code: 8057), a company listed on the GEM, since 21 September 2015 respectively. He was appointed as independent non-executive director of Tianli Holdings Group Limited (stock code: 117) with effect from 30 March 2017 and as independent non-executive director of China Hui Shan Dairy Holdings Company Limited (stock code: 6863) for the period from 22 June 2017 to 27 September 2017.

# DIRECTORS' PROFILE

Mr. Xie Zhichun ("**Mr. Xie**"), aged 60, obtained a Bachelor of Philosophy from Heilongjiang University in 1982, a Master of Economics from Harbin Institute of Technology in 1993, and a PhD of Economics from Nankai University in 2004. Mr. Xie completed the 156th senior management training at Harvard Business School in 1999 and the senior management training at Yale School of Management in 2011. Mr. Xie is currently an executive director and chairman of China Fortune Financial Group (Stock Code: 290) since 6 January 2017, and the vice president of the consultation committee of 深圳前海蛇口自貿片區及前海深港合作區諮詢委員會 (Shenzhen Qianhai Shekou Free Trade Zone and Qianhai Shenzhen Hong Kong Cooperation Zone*). He is also a professor of PRC Special Economic Zone Research Centre at Shenzhen University and supervisor of postgraduate of PBC School of Finance at Tsinghua University. Mr. Xie has been an independent non-executive director of China Taiping Insurance Holdings Company Limited (Stock Code: 966) since 25 June 2015 and China Minsheng Banking Corp., Ltd. (Stock Code: 1988, SSE600016) since 28 October 2016. Mr. Xie was an independent non-executive director of 加拿大永明金融集團香港公司 (Sun Life Financial Services Hong Kong*). He was the deputy general manager of 中國投資有限責任公司 (China Investment Corporation*) ("**CIC**") and an executive director and general manager of 中央匯金投資有限責任公司 (Central Huijin Investment Ltd.*), a subsidiary of CIC which makes equity investment in key state-owned financial institutions in the PRC, from 2014 to 2015. Mr. Xie was an executive director and deputy general manager of 中國光大集團總公司 (China Everbright Group Limited*) and the chairman of the board of directors of each of 光大永明人壽保險有限公司 (Sun Life Everbright Life Insurance Co., Ltd.) and 光大永明資產管理股份有限公司 (Sun Life Everbright Asset Management Co., Ltd.) from 2008 to 2014. He was the vice president and director of reorganization and listing office of 中國光大銀行 (China Everbright Bank Company Limited*) from 2006 to 2008. Mr. Xie was a director and chief executive officer of 光大證券有限責任公司 (Everbright Securities Company Limited*), an executive director of 中國光大集團 (China Everbright Group*), an executive director of China Everbright Limited (Stock Code: 165), a vice chairman (unattending) of 新加坡中資企業協會 (China Enterprises Association (Singapore)*), a director of Shenwan Hongyuan (H.K.) Limited, a director of Everbright Pramerica Fund Management Co., Ltd. and a vice chairman (unattending) of 中國證券業協會 (Securities Association of China*) from 2001 to 2006.

Mr. Tam B Ray, Billy ("**Mr. Tam**"), aged 50, joined the Company as an independent non-executive Director on 5 March 2012. He is also a member of each of the audit committee of the Board (the "**Audit Committee**"), the Nomination Committee and the Special Investigation Committee. Mr. Tam has been a practicing solicitor in Hong Kong for over 20 years. He holds a Bachelor of Laws degree from the University of London, a Bachelor degree in laws of the People's Republic of China from Tsinghua University and a Master of Laws degree from the University of Hong Kong. Mr. Tam is a partner of Messr. Ho & Tam. He has been an independent non-executive directors of China Fortune Financial Group Limited (stock code: 290), a company listed on the Main Board of the Stock Exchange, from 4 December 2007 to 21 December 2016. He has also been an independent non-executive director of Silk Road Energy Services Group Limited (stock code: 8250), a company listed on GEM, from 10 November 2011 to 18 June 2014. Mr Tam has also been a non-executive director of Larry Jewelry International Company Limited (stock code: 8351), a company listed on GEM of the Stock Exchange, from 16 December 2010 to 19 September 2014 and Milan Station Holdings Limited (stock code: 1150), a company listed on the Main Board of the Stock Exchange, since 28 April 2011.

# DIRECTORS' REPORT

The Directors are pleased to present this annual report and the audited financial statements of the Group for the financial year ended 31 December 2018.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 34 to the consolidated financial statements. The principal activities of the Group consist of the sale of beauty products and provision of therapy services and the provision of engineering products and related service business. There were no significant changes in the nature of business of the Group during the year under review.

A fair review of business of the Group during the year under review, discussion on the key financial performance indicators of the Group, particulars of important events affecting the Group that have occurred since the end of the period under review and future development of the Group are provided in the section headed "Management Discussion and Analysis" from page 5 to page 10 of this annual report.

Description of the environmental policies and performance, compliance with the applicable laws and regulations which have a significant impact on the Group, relationships with stakeholders and principal risks and uncertainties facing the Group can be found in the paragraphs below.

### Environmental Policies and Performance

The Group is committed to creating a successful business that is not achieved at the expense of the environment. The Group is dedicated to creating an environmentally friendly and sustainable operation. The Directors are not expecting that the business of the Group will have a significant impact on the environment due to the nature of its principal businesses. Details on Group's environmental policies are set out in the section headed "Environmental. Social and Governance Report" from page 36 to page 45 of this annual report.

### Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group

The Company and its subsidiaries operating in Hong Kong, the PRC and Canada are subject to requirements under various laws and regulations. For subsidiaries operating in Hong Kong, applicable laws and regulations include, among others, the Trade Descriptions Ordinance (Cap. 362 of the Laws of Hong Kong), the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong), the Competition Ordinance (Cap. 619 of the Laws of Hong Kong), the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), and the applicable regulations, guidelines, policies and licence terms issued or promulgated under or in connection with these statutes. In addition, the Group is also subject to the provisions of the GEM Listing Rules. For subsidiaries operating in the PRC, applicable laws and regulations include, among others, Administrative Measures on Foreign Investments in Commercial Sector(外商投資商業領域管理辦法), Law on Environmental Impact Assessment of the PRC(中華人民共和國環境影響評價法), Administrative Measures on Pollutants Discharge Permits(廣東省排污許可證管理辦法), Law on Wholly Foreign Owned Enterprises of the PRC(中華人民共和國外資企業法), Administrative Regulations on Company Registration of the PRC(中華人民共和國公司登記管理條例), Regulations on Certification of Qualification of Civil Aviation Products and Parts(民用航空產品和零部件合格審定規定)and Regulations on Certification of Qualification of Civil Aircrafts Repair Entities(民用航空器維修單位合格審定規定). For the subsidiary operating in Canada, applicable laws and regulations include, among others, the Canada Business Corporation Act, Patent Act, Industrial Design Act, and Canada Labour Code. The Group seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels.

### Relationships with Stakeholders

The Group is committed to operating in a sustainable manner while balancing the interests of its various stakeholders including its employees, customers, suppliers, business partners and the community.

# DIRECTORS' REPORT

The Group considers its employees key to sustainable business growth. The Group is committed to providing all employees a safe and harassment-free working environment with equal opportunities in relation to employment, reward management, training and career development.

As a customer-focused service provider, the Group considers its customers as one of the most important stakeholders. The Group is committed to serving its customers to the best of its ability and continually elevating the level of service excellence.

The Group is committed to upholding the highest ethical and professional standards when dealing with suppliers. The Group has established suppliers monitoring and screening process and conducted suppliers' performance review regularly. Unsatisfactory rating for rectification or improvements will be communicated to its suppliers.

## RISK MANAGEMENT

The risk management process is integrated into our day-to-day activities and is an ongoing process that flows through the Group.

When performing risk identification, the Group takes into account internal and external factors including economic, political, social, technological, environmental and new or updated Group strategy and new regulations, as well as our stakeholders' expectation in these aspects. Each risk identified is analysed on the basis of likelihood and impact consistent with risk parameters set by the Board. Action plans are in place to manage risks. Fundamental to the achievement of our business goal is how the Group can effectively manage existing and emerging risks in economic, social and political environment. A description of the Group's risk factors is shown as below.

### Risk factors

Risks and uncertainties can affect the Group's business, financial condition, operation results or growth prospects leading to a divergence from expected or historical result. Key risk factors affecting the Group are outlined below. In dealing with these, the Group remains in touch with stakeholders with the aim of understanding and addressing their concerns.

These factors are no exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

### Macroeconomic Conditions of the World and the PRC

Global economic growth has been weaker than expected with sluggish demand conditions in the major economies. Uncertainty in world economic recovery continued due to economic pressures and geopolitical tensions in various areas of the world, slow growth in emerging markets including mainland China.

The Group's target customers of the Engineering Business comprise companies and government agencies operating in the PRC. Any unexpected economic, political and social events or changes in the PRC may have a significant impact on the Engineering Business.

The Group has taken a proactive approach to monitoring changes in macroeconomics factors of Global and China. To address macroeconomics volatility, the Group's strategy is to pursue diversification of product lines and expansion in different geographic areas.

**The Engineering Business may not be able to keep up with technological changes**

The engineering industry is moving and customers' preferences change quickly. The introduction of new technology in this industry may render the Group's services to be obsolete and uncompetitive. Accordingly, the Group's future success will depend on its ability to adapt to changing technologies and continually improving the know-how of its staff in response to evolving demands of the market place. Failing to adapt to such changes may result in the Engineering Business losing its customers, which would have a material adverse effect on the financial position of the Group.

The management has been monitoring the latest development in technologies relating to engineering industry. Research and development will be done internally through the Group's own talents or outsourced to qualified third party. When see fit, the Group may also acquire companies with technologies that meet the requirement of business strategy of the Group.

**Compliance with the PRC laws and regulations**

As set out in the paragraph headed "Compliance with the Applicable Laws and Regulations which have a Significant Impact on the Group" above, the operation of the Engineering Business is subject to compliance with various rules and regulations in the PRC. In order to expand into the production of in-flight WIFI equipment and robotics products in the PRC, the Group must obtain certain required qualifications. The Group may not be able to obtain or renew such qualifications and may therefore be unable to expand into the production of the in-flight WIFI equipment and robotics products.

The Group has taken a proactive approach to monitoring any change in applicable laws and regulation. The compliance is done through a variety of means including engaging external advisors, performing regulator audits and complying regulatory reporting obligations.

**Product liability**

The products provided by the Group may contain defects or errors. The Group may incur costs in correcting the defects or errors or defending any legal proceedings and claims brought by its customers. Defects or errors that may be contained in the Group's products may also affect the Group's relationship with such customers and result in negative publicity, hence adversely affecting the Group's reputation. The Group does not currently maintain any product liability insurance but may consider doing so in future. There is no assurance that there will not be any product liability claims against the Group for the loss or damage caused by defective products. If any of the Group's customers make any claim against the Group which is in excess of any insurance coverage of the Group or otherwise falls outside such coverage, the Group will need to bear the costs of settling such claims, and may result in the Group's business and financial condition being adversely affected.

To prevent product liability claims, the Group only deals with qualified and reputable raw material suppliers. The management also conducts regular product safety review should confirm that products comply with the latest industry and government safety standards.

**Competition**

The Group operates in markets and industries where the regulation is drive to open competition has led to increased competition, pricing pressure, loss of market share, and increased promotional, marketing and customer acquisition expenditures.

The Group has been consistently monitoring its competitors, markets and industries and adjusting this business strategy to adopt the changing market place.

# DIRECTORS' REPORT

**Client complaints, claims and legal proceedings in the course of the Group's operations**

Given the nature of the beauty industry and subjective views on the level of satisfaction of beauty services provided and products, on occasions, the Group is susceptible to complaints associated with its products or services. Common client complaints include (i) unsatisfactory results of the Group's services and products; (ii) physical injury caused by the Group's services; (iii) disputes over payment method (e.g. credit card instalment); (iv) unsatisfactory staff services; (v) unsatisfactory treatment progress; (vi) client's change of mind; and (vii) subsequent argument on the terms of contracts.

Customer complaints are handled in a timely manner by trained customer service team of the Group. In case of legal proceedings being file against the Group, the Group will engage or consult qualified professionals to minimize the impact.

## RESULTS AND PROFIT DISTRIBUTION

Details of the Group's results for the financial year ended 31 December 2018 are set out in the consolidated statement of comprehensive income on page 51 of this annual report.

The Directors did not recommend the payment of any final dividend for the financial year ended 31 December 2018 (for the financial year ended 31 December 2017: Nil).

## FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the past five financial years/periods ended 31 December 2014, 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 are set out on page 115 of this annual report. This summary does not form part of the audited consolidated financial statements of the Group.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year under review are set out in Note 15 to the consolidated financial statements in this annual report.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year under review are set out in Note 22 to the consolidated financial statements in this annual report.

## RESERVES

Details of the movement in the reserves of the Group and the Company during the year under review are set out in the consolidated statement of changes in equity on page 54 and Note 29 to the consolidated financial statements, respectively, in this annual report.

## DISTRIBUTABLE RESERVE

The Company did not have any reserves available for distribution to the shareholders of the Company as at 31 December 2018 (as at 31 December 2017: Nil).

## CHARITABLE DONATIONS

The Group has made charitable donations of approximately HK$7,000 during the financial year ended 31 December 2018 (for the financial year ended 31 December 2017: 6,400).

# DIRECTORS' REPORT

## DIRECTORS

The Directors who held office during the year under review and up to the date of this annual report were:

**Executive Directors**

Mr. Su Zhituan *(appointed on 1 June 2018)*
Mr. Sun Ziqiang *(appointed on 20 August 2018)*
Mr. Chen Min *(appointed on 1 June 2018)*
Dr. Andrew Goldenberg
Mr. Zhang Chong *(resigned on 20 August 2018)*
Mr. Zhang Chongdi *(resigned on 1 June 2018)*
Mr. Cai Zhaoyang *(resigned on 25 May 2018)*

**Non-executive Directors**

Mr. Cheng Yu *(appointed on 20 August 2018)*

**Independent non-executive Directors**

Mr. Tam B Ray, Billy
Mr. Chu Kin Wang, Peleus
Mr. Tse Joseph *(resigned on 20 August 2018)*
Mr. Xie Zhichun *(appointed on 20 August 2018)*

Pursuant to bye-law 84 of the bye-laws of the Company (the "**Bye-laws**"), Mr. Su Zhituan, Mr. Sun Ziqiang and Mr. Cheng Yu shall retire from office by rotation at the forthcoming annual general meeting (the "**2019 AGM**"), and, being eligible, offer themselves for re-election at the 2019 AGM.

## THE BIOGRAPHY OF THE DIRECTORS

The biographical details of the Directors of the Company are set out in the section headed "Directors' Profile" on pages 11 to 13 of this annual report.

## DIRECTORS' LETTERS OF APPOINTMENT

None of the Directors being proposed for re-election at the 2019 AGM has a letter of appointment or a services contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## PERMITTED INDEMNITY

Pursuant to the Bye-laws, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his duty, or supposed duty, in their respective offices or trusts.

The Company has arranged for appropriate insurance cover for Director's liabilities in respect of legal action against its Directors arising out of corporate activities.

## INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual written confirmations from each of Mr. Tam B Ray, Billy, Mr. Chu Kin Wang, Peleus and Mr. Xie Zhichun, all being the independent non-executive Directors during the year under review, in respect of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors are independent in accordance with the guidelines set out in the GEM Listing Rules.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "**SFO**") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Long and short positions in the ordinary shares and underlying shares of the Company

| Name of Director/ chief executive | Nature of interests | *Notes* | Interest in shares *(Note 1)* | Interest in underlying shares *(Note 1)* | Total interest in shares *(Note 1)* | Approximate percentage of shareholding *(Notes 1 and 3)* |
|---|---|---|---|---|---|---|
| Mr. Su Zhituan | Interest of controlled corporation | 2 | 151,425,197(L) | — | 151,425,197(L) | 29.91%(L) |
| Andrew Avi Goldenberg | Interest of controlled corporation | 3 | 29,286,971(L) | — | 29,286,971(L) | 5.78%(L) |

*Notes:*

1. "L" represents long position in shares or underlying shares of the Company and "S" represents short position in shares or underlying shares of the Company.

2. Tai Dong New Energy Holding Limited ("**Tai Dong**") is ultimately owned as to 100% by Mr. Su Zhituan and holds long positions in 151,425,197 shares of the Company. Accordingly, Mr. Su Zhituan is deemed to be interested in the long positions in 151,425,197 shares of the Company.

3. KE10MA Holdings Inc. ("**KE10MA Holdings**") is interested in 29,286,971 shares of the Company. KE10MA Holdings is 50%-owned by Dr. Andrew Avi Goldenberg and 50%-owned by Mrs. Aviva C Goldenberg. As Dr. Andrew Avi Goldenberg holds 50% of the issued share capital of KE10MA Holdings and Mrs. Aviva C Goldenberg is the sopuse of Dr. Andrew Avi Goldenberg, Dr Andrew Avi Goldberg is deemed to be interested in such 29,286,971 shares of the Company.

   The percentage is calculated on the basis of 506,219,666 shares of the Company in issue as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, so far as is known to any Directors or chief executive of the Company, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OF THE COMPANY

Save as disclosed in this annual report, at no time during the year under review was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors (including their respective spouses and children under the age of 18) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations, and none of the Directors or their respective spouses or children under the age of 18 had any right to subscribe for shares of the Company or any of its associated corporations or had exercised any such right during the year under review.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this annual report, no Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a controlling shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year under review.

## CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a controlling shareholder of the Company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Board on the basis of their job responsibilities, work performance, professional experience and prevailing industry practices.

The emoluments of the Directors are decided by the Board with reference to the recommendations from the Remuneration Committee, with regard to the Company's operation results, individual performance and comparable market statistics.

The Company has adopted the Share Option Scheme (as defined below) as an incentive to Directors and eligible participants. Please refer to the paragraph headed "Share Option Scheme" on page 22 of this annual report for details.

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Note 11 and Note 10 to the consolidated financial statements, respectively, in this annual report.

## COMPETING INTERESTS OF DIRECTORS

As at 31 December 2018, none of the Directors, substantial shareholders of the Company nor any of their respective close associates (as defined under the GEM Listing Rules) had any interest in a business which causes or may cause significant competition with the business of the Group.

## SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, so far as is known to the Directors and the chief executives of the Company, the interests and shorts positions of the persons or corporations (other than the Directors and the chief executive of the Company) in the shares and underlying shares as recorded in the register to be kept by the Company pursuant to Section 336 of the SFO were as follows:

**Interests and short positions in the ordinary shares or underlying ordinary shares of the Company**

| Name of shareholder | Nature of interests | *Notes* | Interest in shares of the Company *(Note 1)* | Interest in underlying shares of the Company *(Note 1)* | Total interest in shares of the Company *(Note 1)* | Approximate percentage of shareholding *(Notes 1 and 7)* |
|---|---|---|---|---|---|---|
| Tai Dong New Energy Holding Limited ("**Tai Dong**") | Beneficial owner | *2* | 151,425,197(L) | — | 151,425,197(L) | 29.91%(L) |
| Hong Kong Bridge Investments Limited ("**Hong Kong Bridge Investment**") | Interest of controlled corporation | *3* | 41,666,666(L) | — | 41,666,666(L) | 8.23%(L) |
| HKBridge Absolute Return Fund L.P ("**HKBridge Absolute**") | Beneficial owner | *4* | 64,148,063(L) | — | 64,148,063(L) | 12.67%(L) |
| On Top Global Limited ("**On Top Global**") | Beneficial owner | *5* | 36,697,946(L) | — | 36,697,946(L) | 7.25%(L) |
| China HKBridge Holdings Limited ("**China HKBridge**") | Interest of controlled corporation | *3,4,5* | 142,512,675(L) | — | 142,512,675(L) | 28.15%(L) |
| Bloom Right Limited | Beneficial owner | *6* | 10,870,000(L) | — | 10,870,000(L) | 2.15%(L) |
| Ample Key Investments Limited | Security interest | *6* | 64,148,063(L) | — | 64,148,063(L) | 12.67%(L) |
| Allied Year Limited | Security interest | *6* | 41,666,666(L) | — | 41,666,666(L) | 8.23%(L) |
| 中國華融資產管理股份有限公司 (China Huarong Asset Management Co., Ltd.) ("**China Huarong**") | Interest of controlled corporation | *6* | 116,684,729(L) | — | 116,684,729(L) | 23.05%(L) |
| KE10MA Holdings Inc. ("**KE10MA Holdings**") | Beneficial Owner | *7* | 29,286,971(L) | — | 29,286,971(L) | 5.78%(L) |
| Goldenberg Aviva C | Interest of controlled corporation | *7* | 29,286,971(L) | — | 29,286,971(L) | 5.78%(L) |
| Greater Harmony Limited | Interest of controlled corporation | *8* | 30,000,000(L) | — | 30,000,000(L) | 5.93%(L) |
| Ko Chun Shun Johnson | Beneficial Owner | *8* | 30,000,000(L) | — | 30,000,000(L) | 5.93%(L) |

*Notes:*

1. "L" represents long position in shares or underlying shares of the Company and "S" represents short position in shares or underlying shares of the Company.

2. Tai Dong is interested in 151,425,197 shares of the Company. As Tai Dong is ultimately wholly-owned by Mr. Su Zhituan, Mr. Su Zhituan is deemed to be interested in such 151,425,197 shares.

3. Hong Kong Bridge Investments Limited ("**Hong Kong Bridge Investments**") is interested in 41,666,666 shares of the Company. As Hong Kong Bridge Investments is a wholly-owned subsidiary of China HKBridge Holdings Limited ("**China HKBridge**"), China HKBridge is deemed to be interested in such 41,666,666 shares of the Company.

4. HKBridge Absolute Return Fund, L.P. ("**HKBridge Absolute**"), a Cayman Islands exempted limited partnership, the general partner of which is HKBridge (Cayman) GP2 Limited, a Cayman Islands limited liability company, is interested in 64,148,063 shares of the Company. As the entire issued share capital of the general partner of HKBridge Absolute is indirectly owned by China HKBridge, China HKBridge is deemed to be interested in such 64,148,063 shares of the Company.

5. On Top Global Limited ("**On Top Global**") is interested in 36,697,946 shares of the Company. As On Top Global is a wholly-owned subsidiary of Hong Kong Bridge High-Tech, Hong Kong Bridge High-Tech is deemed to be interested in such 36,697,946 shares. Hong Kong Bridge High-Tech, a Cayman Islands exempted limited partnership, the general partner of which is Hong Kong Bridge High-Tech Investment G.P Limited, a Cayman Islands limited liability company. As the entire issued share capital of the general partner of the Hong Kong Bridge High-Tech is indirectly owned by China HKBridge, China HKBridge is deemed to be interest in such 36,697,946 shares of the Company.

6. China Huarong Asset Management Co., Ltd. ("**China Huarong**") indirectly owned 50.99% equity interest in Bloom Right Limited ("**Bloom Right**") and Ample Key Investments Limited ("**Ample Key**"). Bloom Right is directly interested in 10,870,000 shares of the Company, while Ample Key has a security interest over 64,148,063 shares of the Company. China Huarong also indirectly owns 51% equity interest in Allied Year Limited, which has a security interest over 41,666,666 shares of the Company. China Huarong is therefore deemed to be interested in 116,684,729 shares of the Company.

7. KE10MA Holdings Inc. ("**KE10MA Holdings**") is interested in 29,286,971 shares of the Company. As KE10MA Holdings is 50%-owned by Dr. Andrew Avi Goldenberg and 50%-owned by Mrs. Aviva C Goldenberg and Mrs. Aviva C Goldenberg is the spouse of Dr. Andrew Avi Goldenberg, Mrs. Aviva C Goldenberg is deemed to be interested in such 29,286,971 shares of the Company.

8. Greater Harmony Limited ("**Greater Harmony**") is interested in 30,000,000 shares of the Company. As Greater Harmony is ultimately wholly-owned by Mr. Ko Chun Shun Johnson. Mr. Ko Chun Shun Johnson is deemed to be interested in such 30,000,000 shares of the Company.

9. The percentage is calculated on the basis of 506,219,666 Shares in issue as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, so far as is known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other persons or corporations (other than the Directors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "**Share Option Scheme**") at the annual general meeting of the Company held on 7 November 2014 (the "**2014 AGM**"). The scheme mandate limit (the "**Scheme Mandate Limit**") of the share Option Scheme was refreshed at the annual general meeting of the Company held on 8 May 2017 (the "**2017 AGM**").

### 1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to certain Eligible Participants (as defined below) as incentives or rewards for their contribution to the Company and/or its subsidiaries.

### 2. Participants of the Share Option Scheme and the basis of determining the eligibility of the participants

The Board may, subject to and in accordance with the provisions of the Share Option Scheme and the GEM Listing Rules, in its absolute discretion, invite (i) any employees (including, without limitation, executive Directors) of the Company and/or any of its subsidiaries; (ii) any non-executive Directors (including, without limitation, independent non-executive Directors) of the Company and/or any of its subsidiaries; (iii) any consultants, suppliers or customers of the Company and/or any of its subsidiaries; (iv) any employee (whether full-time or part-time and including directors) of any entity in which the Group holds any equity interest; and/or (v) any person who, in the sole discretion of the Board, has contributed or may contribute to the Group eligible for options under the Share Option Scheme (the "**Eligible Participant(s)**") to take up options to subscribe for Shares at the Subscription Price (as defined below).

3. **Maximum number of Shares**

As approved by the shareholders of the Company at the 2017 AGM, the maximum number of shares of the Company in respect of which options may be granted under the refreshed Scheme Mandate Limit is 45,521,966 shares of the Company which is equivalent to 10% and 9.56% of the issued shares of the Company as at the 2017 AGM and 31 December 2017 respectively.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options to be granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the relevant class of shares of the Company in issue from time to time.

4. **Maximum entitlement of each participant**

Unless approved by the shareholders of the Company in general meeting and according to the manner prescribed by the provisions of the Share Option Scheme and the GEM Listing Rules, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each Eligible Participant or grantee (including exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue.

5. **Offer period and amount payable for options**

The offer shall remain open for acceptance for 30 days from the date upon which it is made provided that no such offer shall be open for acceptance after the earlier of the 10th anniversary of the adoption date (i.e. 7 November 2014) (the "**Adoption Date**") or the termination of the Share Option Scheme or the Eligible Participant to whom such offer is made has ceased to be an Eligible Participant.

An option shall be deemed to have been accepted (subject to certain restrictions in the Share Option Scheme) when the duplicate letter comprising acceptance of the option duly signed by the Eligible Participant together with a non-refundable nominal consideration of HK$1.00 is received by the Company from the grantee.

6. **Minimum period for which an option must be held before it can be exercised**

There is no specified minimum period under the Share Option Scheme for which an option must be held or the performance target which must be achieved before an option can be exercised under the terms of the Share Option Scheme.

The terms of the Share Option Scheme provide that in granting options under the Share Option Scheme, the Board may offer to grant any options subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance criteria to be satisfied before such options can be exercised and/or any other terms as the Board may determine in its absolute discretion.

7. **Basis of determining the exercise price**

The exercise price shall be determined by the Board at its absolute discretion, provided that it shall be not less than the higher of (i) the closing price of the shares of the Company on the Stock Exchange (as stated in the Stock Exchange's daily quotations sheet) on the date on which an offer is made to an Eligible Participant, which must be a business day (the "**Offer Date**"), (ii) the average closing price of the Shares on the Stock Exchange (as stated in the Stock Exchange's daily quotations sheets) for the five business days immediately preceding the Offer Date, and (iii) the nominal value of the Shares.

8. **Remaining life of the Share Option Scheme**

The Share Option Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the 10th anniversary thereof, after which period no further options will be issued but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Details of movements in the Company's share options during the twelve months ended 31 December 2018 are set out as follows:

| | Number of share options | | | | |
|---|---|---|---|---|---|
| | Outstanding at 1 January 2018 | Granted during the period *(Note)* | Exercised during the period | Cancelled during the period | Outstanding at 31 December 2018 |
| Employees | 7,383,000 | — | — | (1,651,000) | 5,732,000 |
| Total | 7,383,000 | — | — | (1,651,000) | 5,732,000 |
| Exercisable at the end of the period | | | | | — |

*Note:*

A total of 7,480,000 share options were granted on 3 January 2017, with an exercise price of HK$8.9 and exercise period from 3 January 2018 to 2 January 2022, of which (i) 25% of the share options are exercisable form 3 January 2018 to 2 January 2022; (ii) 25% of the share options are exercisable form 3 January 2019 to 2 January 2022; (iii) 25% of the share options are exercisable form 3 January 2020 to 2 January 2022; and (iv) 25% of the share options are exercisable form 3 January 2021 to 2 January 2022.

## RETIREMENT BENEFIT SCHEMES

Particulars of the retirement benefit schemes of the Group are set out in Note 31 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate sales attributable to the Group's largest customer accounted for approximately 10.7% of the Group's total sales for the year and the five largest customers taken together accounted for approximately 19.1% of the Group's total sales. The Group does not have any significant transaction with any single customer for the financial year ended 31 December 2018.

During the year under review, the aggregate purchases attributable to the Group's largest suppliers accounted for approximately 13.9% (for financial year ended 31 December 2017: 4.2%) of the Group's total purchase for the year and the five largest suppliers taken together accounted for approximately 38.7% (for the financial year ended 31 December 2017: 13.1%) of the Group's total purchase.

# DIRECTORS' REPORT

Save as disclosed in this annual report and to the best knowledge of Directors, none of the Directors, their associates, or any shareholders of the Company (which to the best knowledge of the Directors own more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest suppliers or customers during the financial year ended 31 December 2018.

## CONNECTED TRANSACTIONS

There is no significant related party transactions entered by the Group during the year ended 31 December 2018.

Details of related party transactions entered into by the Group during the year ended 31 December 2017 and 31 December 2018 are disclosed in Note 33 in the consolidated financial statements.

During the year ended 31 December 2018, the Group did not enter into any connected transactions which required reporting, annual review, announcements and/or independent shareholders' approval under the GEM Listing Rules.

Payments of emoluments to the Directors pursuant to their respective service contracts with the Company were exempt connected transactions under Rule 20.93 of the GEM Listing Rules while payments of emoluments/consultancy fee to senior management do not constitute connected transactions under Chapter 20 of the GEM Listing Rules.

## DISCLOSURE PURSUANT TO RULES 17.23 AND 17.24 OF THE GEM LISTING RULES

Pursuant to the Term Loan Agreement entered into between Xing Hang (as borrower) and Success Far (as lender) on 17 February 2015, a deed of charge and assignment in relation to the 179,921,200 shares of the Company had been executed by Xing Hang (as charger) in favour of Success Far (as chargee), pursuant to which 179,921,200 shares of the Company have been charged by Xing Hang to Success Far as security under the Term Loan Agreement for the term loan facility up to HK$71,968,480. Please refer to the Company's circular dated 7 October 2015 and the Company's announcement dated 15 April 2015 in relation to, among other things, the Subscription, for details.

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

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

## MANAGEMENT CONTRACTS

During the year under review, other than the letters of appointment of the Directors, no management and administrative contracts regarding the entire or any major businesses of the Company have been entered into or have existed.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the law of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available and to the best knowledge, information and belief of the Directors, the Company has maintained a sufficient public float as required under the GEM Listing Rules throughout the year ended 31 December 2018.

## EVENTS AFTER THE REPORTING PERIOD

The Group has no significant event after the reporting period.

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 27 to 35 of this annual report.

## AUDITOR

The Company has appointed PricewaterhouseCoopers as the auditor of the Company for the reporting period. A resolution will be proposed for approval by shareholders at the 2019 AGM to re-appoint PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board

**Su Zhituan**
*Executive Director and Chairman*

Hong Kong, 26 March 2019

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Stock Exchange issued the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules which sets out the principles and the code provisions which listed issuers are expected to apply and comply.

During the period under review and up to the date of this annual report, the Company has applied the principles as set out in the CG Code that are considered to be relevant to the Company and has complied with most of the applicable code provisions as set out in the CG Code save for certain deviations, details of which are explained in the relevant paragraphs of this corporate governance report.

The key corporate governance principles and practices of the Company are summarised as follows:

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own codes of conduct regarding Directors' and relevant employees' securities transactions, namely "Code for Securities Transactions by Directors" and "Code for Securities Transactions by Relevant Employees", both of which apply to all Directors and relevant employees of the Company in terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry with each of the Directors, all Directors have confirmed that they have complied with such code and the required standard of dealings on Directors' securities transactions during the year ended 31 December 2018.

## BOARD OF DIRECTORS

### Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibilities for decisions making in all major matters of the Company include approving and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transactions, 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 senior management. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior management and the Board has the full support of them to discharge its responsibilities. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this corporate governance report.

**Composition**

As at the date of this annual report, the Board comprises eight Directors and their respective roles are set out as follows:

***Executive Directors***

Mr. Su Zhituan
Mr. Sun Ziqiang
Mr. Chen Min
Dr. Andrew Goldenberg

***Non-executive Directors***

Mr. Cheng Yu

***Independent non-executive Directors***

Mr. Tam B Ray, Billy
Mr. Chu Kin Wang, Peleus
Mr. Xie Zhichun

Two of the independent non-executive Directors have appropriate professional qualifications, or accounting or related financial management expertise.

None of the Board members have financial, business, family or other material/relevant relationship with each other.

Biographical details of the Directors are set out in the section headed "Directors' Profile" on pages 11 to 13 of this annual report.

The Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. All the Directors have given sufficient time and attention to the Company's affairs. Code provision A.5.6 of the CG Code stipulates that there should be a policy concerning the diversity of Board members. With a view to achieving a sustainable and balanced development, the Company has been seeing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Though without a formally written policy, the Company will consider board diversity from a number of factors when deciding on new appointments to the Board and the continuation of those appointments in order to achieve a diversity of perspectives among Board members. These factors include but not limited to gender, age, cultural and educational background, professional or industry experience, skills, knowledge and other qualities of Directors. The Board as a whole is responsible for reviewing the structure, size and composition of the Board with due regard to the intended benefits of board diversity. The balance between the number of Executive and Non-Executive Directors is considered effective in ensuring independent judgment being exercised effectively to provide sufficient checks and balances to safeguard the interests of the Company and its shareholders. The Company believes that the current Board composition is well-balanced and of a diverse mix appropriate for the business of the Company. The Board will review and monitor the implementation of board diversity on a regular basis to ensure its effectiveness on determining the optimal composition of the Board.

## APPOINTMENTS, RE-ELECTION AND REMOVAL

The Board has established the Nomination Committee on 27 March 2012 with details set out in the paragraph headed "Nomination Committee" on page 31 of this annual report.

According to the Bye-laws, the Board may from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation in general meeting, as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

### Board Meetings

The Board regularly meets in person or through other electronic means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. All Directors are given an opportunity to attend and include matters in the agenda for discussion. During the period under review, at least 14 days' notice were given to all Directors for a regular board meeting in order to comply with the relevant code provision of the CG Code.

Apart from regular meetings, our senior management from time to time provides Directors with information on activities and development of the businesses of the Group. The company secretary of the Company (the "**Company Secretary**") takes detailed minutes of the meetings and keeps records of matters discussed and decisions resolved at the meetings. Individual attendance records of each Director at the respective Board and committee meetings are set out in the following section.

## DIRECTORS' ATTENDANCE RECORD AT MEETINGS

Details of the attendance of the Directors at the meetings of the Board and its respective committees during the year ended 31 December 2018 are as follows:

| Name of Director | Board Meeting | Audit Committee | Remuneration Committee | Nomination Committee | Annual General Meeting |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Cai Zhaoyang | 2/2 | — | — | — | 1/1 |
| Andrew Goldenberg | 9/9 | — | — | — | 0/1 |
| Zhang Chongdi | 2/2 | — | — | — | 1/1 |
| Zhang Chong | 6/6 | | 1/1 | 1/1 | 1/1 |
| Su Zhituan | 6/6 | | 1/1 | 1/1 | — |
| Chen Min | 6/6 | — | — | — | — |
| Sun Ziqiang | 2/2 | — | — | — | — |
| **Non-executive Directors** | | | | | |
| Cheng Yu | 2/2 | — | — | — | — |
| **Independent non-executive Directors** | | | | | |
| Tam B Ray Billy | 9/9 | 4/4 | — | 2/2 | 1/1 |
| Chu Kin Wang, Peleus | 9/9 | 4/4 | 2/2 | 2/2 | 1/1 |
| Tse Joseph | 6/6 | 3/3 | 2/2 | — | 1/1 |
| Xie Zhichun | 2/2 | 1/1 | — | — | — |

### Directors' Training

Up to the date of this annual report, all Directors have participated in continuous professional development by attending training courses on the topics related to corporate governance and regulations to comply with the relevant code provision. For those Directors who did not attend a structured course, the Company has arranged the Company Secretary to provide in-house training to such Directors and maintained a record of training.

A summary of the training received by the Directors for the period under review according to the records provided by the Directors is as follows:

| Name of Directors | Type of Continuous Professional Development<br>Reading on corporate governance, regulatory updates development and other relevant topics | Attending relevant training sessions |
|---|---|---|
| **Executive Directors** | | |
| Mr. Cai Zhaoyang | ✓ | ✗ |
| Dr. Andrew Goldenberg | ✓ | ✗ |
| Mr. Zhang Chongdi | ✓ | ✗ |
| Mr. Zhang Chong | ✓ | ✗ |
| Mr. Su Zhituan | ✓ | ✗ |
| Mr. Chen Min | ✓ | ✗ |
| Mr. Sun Ziqiang | ✓ | ✗ |
| **Non-executive Directors** | | |
| Mr. Cheng Yu | ✓ | ✗ |
| **Independent non-executive Directors** | | |
| Mr. Tam B Ray, Billy | ✓ | ✓ |
| Mr. Chu Kin Wang, Peleus | ✓ | ✓ |
| Mr. Tse Joseph | ✓ | ✓ |
| Mr. Xie Zhichun | ✓ | ✓ |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. The position of the chairman is held by Mr. Su Zhituan. The responsibilities of the chairman of the Company is to ensure the Board to work effectively and perform its responsibilities, and all key and appropriate issues are discussed by the Board, draw up and approve the agenda for each board meeting and take into accounts, any matters proposed by others Directors for inclusion in the agenda.

As at 31 December 2018 and up to the date of this report, the Company has not appointed a chief executive officer and is looking for a suitable candidate to act as chief executive officer in order to comply with the CG Code. The office and duties of the chief executive officer in respect of the day-to-day management of the Group's business is handled by the executive Directors collectively.

## NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 5.05 of the GEM Listing Rules, the Company must have three independent non-executive Directors; one of them has appropriate professional qualification or accounting or related financial management expertise.

The Company has received annual written confirmations from Mr. Tam B Ray, Billy, Mr. Chu Kin Wang, Peleus and Mr. Xie Zhichun, all being the independent non-executive Directors during the period under review, in respect of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors to be independent.

## BOARD COMMITTEE

### Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Remuneration Committee include making recommendation to the Board on the Group's policies and structure for all remuneration of Directors and senior management, determining specific remuneration packages of all executive Directors and senior management, and reviewing and approving performance-based remuneration.

As at 31 December 2018 and up to date of this annual report, the Remuneration Committee comprises two independent non-executive Directors, namely Mr. Chu Kin Wang Peleus (chairman) and Mr. Tse Joseph and one executive Director, Mr. Su Zhituan.

The Remuneration Committee held two meeting during the year ended 31 December 2018.

### Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Nomination Committee include reviewing the structure, size and composition of the Board, identification of individuals suitably qualified to become Board members and making recommendations to the Board on the selection of individuals nominated for directorships, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

In respect of the appointment and reappointment of Directors, the nomination committee adopted a nomination policy concerning the selection criteria and procedures. The factors that would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate are reputation for integrity, qualifications, skills and experience that are relevant to the Group's businesses having regard to the corporate strategy and commitment in respect of available time and relevant interest. In the case of nominating the candidate for appointment/re-appointment as an INED, in addition to the selection criteria to which the Nomination Committee would give due regard, the independence of the candidate would be assessed with reference to the independence criteria set out in the Listing Rules. If an INED serves more than nine consecutive years, particular attention would be given to reviewing the independence of such INED for determining his eligibility for nomination by the Board to stand for re-election at a general meeting.

The Nomination Committee also adopted a diversity policy in relation to the nomination and appointment of new directors. The Nomination Committee selects board candidates based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

As at 31 December 2018 and up to date of this annual report, the Nomination Committee comprises two independent non-executive Directors, namely Mr. Chu Kin Wang Peleus (chairman) and Mr. Tam B Ray, Billy and one executive Director, Mr. Su Zhituan.

The Nomination Committee held two meeting during the year ended 31 December 2018.

**Audit Committee**

The Company has established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules. The principal responsibilities of the Audit Committee include reviewing the financial statements and reports and considering any significant or unusual items raised by the compliance officer or external auditors before submission to the Board, reviewing the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and making recommendation to the Board on the appointment, re-appointment and removal of external auditors and reviewing the adequacy and effectiveness of the Company's financial reporting, internal control and risk management systems and associated procedures.

As at 31 December 2018 and up to the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus (chairman), Mr. Tam B Ray, Billy and Mr. Xie Zhichun.

The Audit Committee held four meetings during the year ended 31 December 2018, to review the financial results and reports, financial reporting and compliance procedures, report on the Company's internal control and risk management review and processes, as well as the re-appointment of the external auditors. During each meeting, the Audit Committee has met with the external auditors without the presence of executive Directors to discuss financial reporting issues.

The Audit Committee has reviewed the consolidated financial statements for the financial year ended 31 December 2018 and provided advices and comments thereon.

The minutes of meetings have been kept by the secretary of meetings (who should normally be the Company Secretary). The draft and final versions of minutes have been sent to all committee members for their comment and records within a reasonable time after each meeting.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and the senior management, the Company's policies and practices compliance with the legal and regulatory requirements, the compliance of the "Code for Securities Transactions by Directors" and "Code for Securities Transactions by Relevant Employees", and the Company's compliance with the CG Code and disclosure in this corporate governance report.

## ATTENDANCE OF GENERAL MEETING

Pursuant to code provision E.1.2 of the CG Code, the Chairman should attend the annual general meeting of the Company and he should invite the chairmen of the Audit Committee, the Remuneration Committee, the Nomination Committee and any other committees (as appropriate) to attend. Pursuant to code provision A.6.7 of the CG Code, independent non-executive Director and other non-executive Directors should attend the general meetings of the Company. During the year ended 31 December 2018, the annual general meeting of the Company was held on 25 May 2018 (the "**2018 AGM**") and all the then Directors had attended the 2018 AGM except for Dr. Andrew Goldenberg due to other business commitment.

## AUDITORS' REMUNERATION

During the year under review, the remuneration in respect of audit services and non-audit services provided by the Company's external auditor, PricewaterhouseCoopers, is set out below:

| **Services rendered** | **Fee paid/payable** *HK$'000* |
|---|---|
| Audit services | 1,780 |
| Non-audit services | 52 |

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial period and to ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the risk management and internal control of the Group. To facilitate the effectiveness and efficient operations and to ensure compliance with relevant laws and regulations, the Group emphasizes the importance of a sound risk management and internal control systems which is also indispensable for mitigating the Group's risk exposures. The risk management and internal control systems are reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present risk management and internal control of the Group are satisfactory. The Group has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board. The Board has conducted review of the effectiveness of the system of internal control and is of the view that the risk management and internal control systems adopted for the year ended 31 December 2018 is sound and are effective to safeguard the interests of the shareholders' investment and the Company's assets.

With respect to procedures and internal controls for handling dissemination of inside information, the Company is aware of its obligations under the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO") and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the safe harbours as provided in the SFO. The Company conducts its affairs with close regard to the applicable laws and regulations and the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission. The Company has also communicated to all staff the principal and requirement regarding inside information.

As required under code provision C.2.5 of the CG code, the Company has established an internal audit function. A senior executive has been appointed in charge of the internal audit function and reports directly to the Audit Committee. The senior executive is provided with unrestricted access to all information of on Group's assets, records and personnel in the course of internal audit. The senior executive has attended the Audit Committee meetings and reported findings to members of the Audit Committee. All Directors are informed of the findings of internal audit assignments carried out during the year.

## COMPANY SECRETARY

The Company Secretary is responsible for advising the Board through the Chairman on governance matters and also facilitates induction and professional development of the Directors. The Company Secretary reports to the Chairman. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures, all applicable law, rules and regulations are followed. Mr. Yang Chuen Liang, Charles ("Mr. Yang") is the Company Secretary. According to Rule 5.15 of the GEM Listing Rules, Mr. Yang has confirmed that he has taken no less than 15 hours of relevant professional training to update his skills and knowledge during the period under review. He will continue to comply with the GEM Listing Rules and take no less than 15 hours of relevant professional training in each financial year.

## SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Annual report, interim report and quarterly reports offer comprehensive information to the shareholders of the Company on operational and financial performance whereas annual general meetings provide a forum for the shareholders of the Company to exchange views directly with the Board. All of the then Directors and all members of the Audit Committee attended the 2018 AGM to answer questions raised at the meeting. Each general meeting, other than an annual general meeting, shall be called a special general meeting (the "**SGM**").

### Right to convene SGM

According to the Bye-laws, any one or more shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meeting of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a SGM to be called by the Board for the transaction of any business specified in such requisition. The requisition must be lodged with the Company's principal place of business in Hong Kong.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified is not in order, the shareholders will be advised of this outcome and accordingly, a SGM will not be convened as requested. If within twenty-one (21) days from the date of the deposit of the proper and orderly requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the SGM varies according to the nature of the proposal, as follows:

— At least 14 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes an ordinary resolution of the Company in SGM;

— At least 21 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes a special resolution of the Company in SGM.

**Right to put forward enquiries to the Board**

Shareholders of the Company may at any time send their enquiries and concerns to the Board in writing to the Company Secretary at the Company's head office in Hong Kong at Room 4702, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

**Right to put forward proposals at general meetings**

Shareholders of the Company should follow the procedures set out in the sub-section headed "Right to convene SGM" above for putting forward proposals at general meetings.

## INVESTOR RELATIONS

The Company considers that effective communication with shareholders of the Company is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with the shareholders of the Company and in particular, through annual general meetings and other general meetings. The website of the Company is http://www.superrobotics.com.hk.

## DIVIDEND POLICY

The Board has approved and adopted a dividend policy on 26 March 2019 ("Dividend Policy") which shall take effect on 26 March 2019. The Dividend Policy allows the shareholders of the Company to participate in the Company's profits by provision of dividends whilst preserving the Company's liquidity to capture future growth opportunities. According to the Dividend Policy, the Board shall consider the following factors, among others, before proposing and declaring dividends:

(i) the Group's operation and financial performance;

(ii) the Group's capital requirements and future funding needs;

(iii) the liquidity conditions of the Group;

(iv) the availability of reserves of the Company and each of the members of the Group;

(v) any restriction on payment of dividends;

(vi) the general economic conditions and other internal and external factors that may have an impact on the business or financial performance and position of the Group; and

(vii) any other factors that the Board may consider relevant.

The declaration of dividends by the Company is also subject to the compliance with applicable laws and regulations, including the laws of Bermuda, the GEM Listing Rules, bye-laws of the Company and any applicable laws, rules and regulations. The Dividend Policy will be reviewed from time to time by the Board and may adopt changes as appropriate at the relevant time. There can be no assurance that dividends will be paid in any particular amount for any given period.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**About This Report**

We are delighted to present the Environmental, Social and Governance ("ESG") Report of SuperRobotics Limited (the "Company") together with its subsidiaries (collectively the "Group"). The Group's main operations include sales of beauty products and the provision of therapy services (the "Beauty Business"), as well as the provision of engineering products and related services (the "Engineering Business").

We believe that sustainable business growth is of high priority to both the Group and its stakeholders. We are committed to providing quality and socially responsible products and services to the community, whilst minimising the environmental and social impacts from our operations.

The report is compiled in accordance with the disclosure requirement of the "comply or explain" provisions as detailed in the Environmental, Social and Governance Reporting Guide (ESG Guide) under Appendix 20 to the GEM Listing Rules issued by the Stock Exchange of Hong Kong Limited. The disclosure contents of this Report have been confirmed by the Board.

The reporting period of this report shall cover the period between 1 January 2018 and 31 December 2018

**Stakeholder Engagement**

We engage our stakeholders on an ongoing basis and seek to collect their views and expectations on our ESG performance and disclosures. In response to the interests and concerns of our stakeholders, the ESG performance of the Group was reviewed using the strictest corporate governance principles, with respect to environmental protection, employee development, community investment. The results of the review are presented in the following sections of the report.

To extend its efforts to a broader audience, the Group had consulted both its internal and external stakeholders on its potential impact on the environment and society as a result of its business operations. The Group understands and values relationship with customers and suppliers, and thus included both parties as our consultation targets.

The table below presents key stakeholders of the Group as well as how the Group communicate with them through a variety of engagement channels during the year.

**Internal Stakeholders**
- The Board
- Management
- General Staff

**External Stakeholders**
- Shareholders
- Investors
- Customers

**Engagement methods:**

Meetings, staff performance appraisal interviews, interviews direct mail, internal publications, Annual General Meeting ("AGM") and announcements.

**Stakeholder Feedback**

Stakeholders' valuable feedback can help the Group make ongoing improvements with respect to environmental, social and governance aspects. If you have any questions or comments regarding the contents of this report, please contact us through one of our communication channels.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## A. ENVIRONMENTAL PROTECTION

The Group endeavours to create sustained business growth that is not achieved at the expense of our environment. The Group's environmental policy emphasises both impact management and resources efficiency. This is achieved mainly through proper waste management, energy efficiency enhancement and greenhouse gas (GHG) emissions reduction.

The Group is aware of the potential environmental impacts associated with its engineering business and has developed a set of internal regulations with the objective of minimising such impacts. Our robotics business, for instance, has implemented an environmental management system in line with the internationally recognized standard ISO14001:2015.

**Impact Awareness**

To measure the impacts from our operations from the robotics business, we have adopted a risk-based approach to identify significant environmental aspects by measuring the scale of potential impact and its likelihood. This helps us prioritise mitigation measures on the activities that are the most impactful to the environment.

A systematic approach is adopted by the Group to identify factors of environmental impact associated with the Engineering Business. Factors covered by this analysis include atmospheric/water/noise emission, waste production, land pollution, use of resources, in addition to other environmental and social impacts. In addition to normal operation, the analysis considers potential impacts related to alternate operation modes and emergency scenarios. Major environmental factors identified from this exercise are managed and monitored regularly. In case of significant changes to the premises of the analysis, such as revisions in regulation, the impact identification process will be revisited.

***Emissions***

The Group puts great emphasis on energy conservation and GHG emission reduction at our premises. The use of equipment with higher energy efficiency is encouraged. Hydrofluorocarbon (HFC) refrigerants, which have lower global warming potential compared to traditional Chlorofluorocarbon (CFC) and Hydrochlorofluorocarbon (HCFC) refrigerants, are used in our air conditioning systems as far as possible to limit GHG emissions. The air conditioning systems are regularly maintained to achieve higher energy efficiency and reduce associated GHG emissions.

To reduce automobile emissions, vehicles owned by the Group are regularly inspected and maintained. Also, purchase of vehicles with better fuel economy ratings is preferred. Employees are encouraged to prevent idling during everyday use of vehicles.

During the reporting period, the Group has generated 490 tonnes of greenhouse gas (GHG) emissions in total. The majority of the GHG emissions was through indirect means, associated with electricity consumption, which accounts for about 80% of total GHG emissions. Business travel by the Group's employees was another significant source of indirect GHG emission, which was responsible for about 15% of the Group's overall GHG emission total. The Group will continue to strive to minimize business travel through the use of videoconferencing where possible in substitute of face-to-face meetings.

The major source of direct emissions was from the use of petrol-powered automobiles, which emits $NO_x$, $SO_x$ and particulate matter in addition to carbon dioxide. Overall, about 11kg of $NO_x$, 0.2kg of $SO_x$, and 0.78kg of particulate matter were produced by the Group's operations in 2018.

| Environmental KPIs | Unit | 2017 | 2018 |
|---|---|---|---|
| *Greenhouse gas (GHG) emissions* | | | |
| Scope 1 — Direct emissions | tonne $CO_2e$ | 46.75 | 40.13 |
| Scope 2 — Energy indirect emissions | tonne $CO_2e$ | 298.81 | 379.23 |
| Scope 3 — Other indirect emissions* | tonne $CO_2e$ | — | 70.75 |
| *Air Emissions* | | | |
| Nitrogen Oxides ($NO_x$) emissions | tonne | 0.013 | 0.0106 |
| Sulfur Oxides ($SO_x$) emissions | tonne | — | 0.0002 |
| Particulate Matter Emissions | kg | — | 0.78 |

* *includes contribution from business air travels and paper waste disposed at landfills*

***Use of Resources***

The Group places a high priority on effective use of resources such as electricity, power and paper. Resource usage (e.g. water, electricity and paper) at our robotics offices is monitored on a monthly basis and corrective actions will be implemented in case excessive consumption is identified. Policies are also in place to regulate the use of air-conditioning. Indoor air-conditioning is turned on when the outdoor temperature is 30°C or higher, and is set at 26°C or higher to limit electricity consumption. In addition, the Group's intends to operate its offices in a paperless environment, reducing paper usage where possible. Employees are recommended to use duplex printing and copying. In addition, most of our marketing materials were distributed through electronic means only.

To reduce water consumption, reminders are posted within the Group's offices and beauty centres to promote water conservation practices.

| Environmental KPIs | Unit | 2017 | 2018 |
|---|---|---|---|
| *Energy Consumption* | | | |
| Direct Energy Consumption | | | |
| Petrol | kWh | 167,101 | 140,790 |
| Indirect Energy Consumption | | | |
| Purchased Electricity | kWh | 341,523 | 543,575 |
| *Energy Intensity* | | | |
| Direct Energy Consumption | kWh/1000 HKD Revenue | 2.12 | 2.20 |
| Indirect Energy Consumption | kWh/1000 HKD Revenue | 4.33 | 8.50 |
| *Water Consumption* | | | |
| Water Consumed | $m^3$ | 1,261 | 3,000 |
| Water Consumption Intensity | $m^3$/1000 HKD Revenue | 0.016 | 0.047 |

***Managing our Waste***

Waste management procedures have been implemented to properly segregate, store and dispose waste generated from our operations in accordance with regulatory requirements. Waste reduction, reuse and recycling of materials where possible is strongly encouraged. To achieve this, a representative from each department is assigned to ensure all produced waste are categorized and disposed accordingly. In addition, the importance of waste categorization, along with categorization techniques are regularly presented to all members of our staff through means such as meetings and signages. Our Waste Management Policy also calls for routine maintenance and cleaning of waste collection locations within our facilities to limit foul odours and to repel insects. Relevant national and local laws and regulations with respect to waste disposal are strictly adhered to.

The Group has adopted a number of risk reduction measures at our Robotics manufacturing sites to limit emissions of contaminated water. Disposal of oil and chemicals into the sewer system is strictly prohibited. To prevent contamination of runoff, the Group prohibits the storage of hazardous substances/pollutants near stormwater drainage channels. Furthermore, stormwater channels are segregated from the wastewater disposal network at the Group's facilities.

**Hazardous Waste**

The operation of the Group's medical skincare centre in Hong Kong generates medical waste such as syringes and needles, of which their disposal is executed in accordance with Waste Disposal (Clinical Waste) General Regulation (Cap 354O).

In this reporting period, the Group generated a total of 0.04 tonnes of hazardous waste. The Group will continue monitoring closely on reduction efforts to limit the production of hazardous waste.

**Non-hazardous Waste**

Wastes generated by the Group's daily operations is collected and logged in an organized fashion. Non-hazardous waste produced by our Beauty business includes but not limited to cotton swabs, shower caps, paper slippers and towels. As for our Robotics business, examples of typical non-hazardous wastes produced include cardboard cartons, hardware (e.g. screws, nuts, bolts), springs, gloves and masks.

During this reporting period, the Group generated a total of 5.16 tonnes of non-hazardous waste. The Group will continue monitoring closely on reduction efforts.

| Environmental KPIs | Unit | 2017 | 2018 |
|---|---|---|---|
| *Waste Production* | | | |
| Hazardous waste produced | tonne | 0.05 | 0.04 |
| Non-hazardous waste produced | tonne | 5.55 | 5.16 |

***Packaging Materials***

During the reporting period, it was recorded that a total of 5.7 tonnes of packaging material was used for the packaging of finished products. The use of packaging materials is associated with the Engineering business only, which includes plastic bubble wraps and cardboard cartons for transport, and wooden boxes.

| Environmental KPIs | Unit | 2017 | 2018 |
|---|---|---|---|
| *Packaging Materials* | | | |
| Total | tonne | 3.64 | 5.7 |

## B. SOCIAL

### Employment and Labour Practices

***Employment***

The business of the Group spreads across two industry sectors. The Group understands that our staff is the key to the success of our business and we adopt a people-centric strategy to human capital management. To attract and motivate talent, the Group is committed to providing a rewarding career and maintaining a safe, and positive environment. Our human resources policies and handbook provides clear guidance covering various aspects including compensation, dismissal, recruitment, promotion, rest periods, equal opportunity, diversity, anti-discrimination, welfare, and other benefits.

Recruiting and retaining talent is vital to our business growth. To identify and secure suitable young talent with the needed knowledge and skillsets for our high-tech robotics business, we work closely with universities in Shenzhen, Mainland China for campus recruitment. In addition, through usage of popular social media platforms such as WeChat, our career recruitment network extends beyond Shenzhen to engage and attract aspiring talents from the rest of Mainland China.

As one of its guiding principles, the Group commits to growing its business in a manner that is both sustainable and socially responsible. It is the Group's goal to maintain its best management practices and evolve with time through a continual improvement process.

*Equal Opportunities, Diversity and Anti-Discrimination*

The Group is committed to ensure that our employees are given equal opportunities with respect to recruitment, promotion, training & development, compensation and other aspects of employment practices. Discrimination of any form is prohibited, including on the grounds of gender, religion, race, sexual orientation, age, family status, disability, maternity or political affiliation. This principle against discrimination is applied across all aspects of our human resource management philosophy.

*Work-Life Balance*

To enhance employee engagement and encourage collaboration, during the year, we organise a range of teambuilding activities, including an outdoor team-bonding day, corporate basketball matches, and public speaking competitions amongst colleagues. Furthermore, the employees are welcomed to organize hobby clubs based on their interests. The Group has allocated an annual sponsorship budget to fund the operations of hobby clubs.

*Remuneration*

Our employees are assessed and incentivised based on their performance. The Group reviews the remuneration package annually to maintain competitiveness in the market. The Group strictly follows the requirements for working hours and holidays defined in local laws in the jurisdictions where its operations are located. Our employees are entitled to local statutory holidays and paid leaves. In addition, our employees are provided with other forms of paid time off, such as marriage leave, compassionate leave, maternity leave and paternity leave.

*Retirement Benefit Scheme*

The Group participates in the Mandatory Provident Fund (MPF) scheme and have fulfilled the employer contribution requirements during the Reporting Period in accordance with the Mandatory Provident Fund Schemes Ordinance (Cap. 485). For the employees of the Engineering Business which operate in PRC, the Group makes contributions to the central pension scheme operated by the local municipal government, in compliance with the Labour Law of the People's Republic of China. Similarly, for the Group's qualified Engineering business employees in Canada, the Group participates in the Canada Pension Plan (CPP). The Group makes monthly contributions to the scheme at up to about 5% of the employees' relevant incomes.

During the year ended 31 December 2018, the total contributions paid or payable to the pension fund scheme by the Group amounted to approximately HK$9.2 million (approximately HK$5.5 million in 2017), which has been recognized as expenses and included in employee costs in the consolidated statement of comprehensive income.

*Compensation and Benefit*

In addition to standard compensation packages and bonuses, we offer a range of supplementary benefits to our Beauty business employees, including medical coverage, footwear allowance, complementary beauty treatments, staff discounts and meal allowance. For our Engineering business employees, meal and transportation subsidies are provided, in addition to gift-money for special occasions such as Lunar New Year, Mid-Autumn Festival and employee birthdays.

As of 31 December, 2018, the Group has a total of 192 employees, and the breakdown of our workforce distribution is presented below:

| **Employees Diversity** | **2018** | |
|---|---|---|
| Total Number of Employees | **192** | |
| Employees Distribution in Different Business Units | **No.** | **%** |
| Number of Employees Working in Beauty Business | 34 | 18% |
| Number of Employees Working in Engineering Business | 146 | 76% |
| Number of Employees Working in Group | 12 | 6% |
| Employees Gender Distribution | | |
| Number of Male Employees | 130 | 68% |
| Number of Female Employees | 62 | 32% |
| Distribution of Employment Type | | |
| Number of Full-Time Employees | 192 | 100% |
| Number of Part-Time Employees | 0 | 0% |
| Employees Age Distribution | | |
| Within the age group <30 | 49 | 26% |
| Within the age group 30-40 | 103 | 54% |
| Within the age group 41-50 | 26 | 14% |
| Within the age group 51-60 | 12 | 6% |
| Within the age group >60 | 2 | <1% |
| Turnover Rate of Employees | | 16% |

### *Health and Safety*

Occupational health and safety (OHS) and the wellbeing of our employees are one of the Group's key priorities. The Group adopts proper procedures at the workplace to ensure employees have sufficient training and support.

The Engineering Business has implemented an OHSAS18001:2007-compliant occupational safety system with policies and processes in place which clearly define requirements on the continuous improvement of safety risk management. Employees are required to participate in regular safety training such as seminars and workshops to enhance safety awareness and be equipped with necessary safety knowledge.

*Safe Handling of Hazardous Substances*

The Group keeps record of all hazardous substances handled within the Group's facilities, documenting information such as the department(s) using the substance, storage location and physical & chemical properties. Specific firefighting measures have been developed based on the hazardous properties of the substances. Compatibility between hazardous substances is taken into careful consideration to reduce the risks with leaks, contamination and undesired chemical reactions. Storage depots are provided for storing hazardous chemicals in larger quantities or for over a long period of time. To avoid mishandling of chemicals, containers are provided with colour-coded labels to indicate potential flammable/toxic hazards.

*Fire Safety*

Firefighting provisions are inspected on a daily basis and maintenance is provided where required to ensure proper functioning of emergency response equipment. Evacuation routes on-site are regularly surveyed to ensure no obstacles are present. The Group maintains consistent contact with local environmental ministries and fire departments to maintain up-to-date information with respect to safety and environmental protection. In addition, fire drills and safety seminars are conducted every year to prepare our employees for potential fire emergencies.

*Occupational Health*

Personnel working at the Group's engineering business are equipped with suitable personal protection equipment (PPEs) such as gloves, masks and earmuffs to limit exposure to hazardous chemicals and loud noise. Training is provided to workers to ensure proper use of PPEs. In addition, staff is provided with annual health check-ups and are treated accordingly in case any occupational sickness is diagnosed.

At Group's Beauty Business, sharp materials such as needles are used during the delivery of medical skincare services which can pose health and safety risks. Hence, beauty centre staffs are provided with induction and refresher training on safety procedures to reduce the number of workplace injuries. In addition, reminders are set up at the workplace highlighting standard operating procedures and the appropriate emergency response in the event of accidental injury. All workplace injuries and near-miss incidents are required to be reported to the Group for further review.

Therapists are provided with a break of at least 15 minutes between beauty therapy sessions; this aims to help them better concentrate at work and minimise health and safety risks due to fatigue.

During the reporting period, no work-related injury cases were recorded during the Group's operations.

***Development and Training***

The Group believes that continuous development and training of its staff is the key to sustaining its high service quality and competitiveness in the market. Employees are engaged from time to time for members of the management to understand their developmental needs and encourage them to learn new skills and knowledge for professional and personal development.

The Group's engineering business requires a high level of skills and expertise. To keep our engineers up-to-date with the latest robotics technology development, we regularly arrange training courses on software programming, robotics design and manufacturing. Depending on specific training needs, we also invite external consultants to deliver training courses.

To equip the frontline staffs of the Beauty Business with the right skillset and knowledge, a one-month full-time training program is provided for new recruits. Coached by experienced employees and registered doctors, the program covers medical theories, practical skills and customer service. The trainees are required to pass a compulsory and stringent examination to qualify as a beauty therapist before providing service to the customer.

During the reporting period, we have provided 3 training sessions to our Beauty Business employees to enhance their skills in using beauty treatment machines.

The Group's development and training statistics for the Reporting Period is presented below:

| **Employees who received training** | **2018** |
|---|---|
| By Gender | |
| Number of Male Employees | 43 |
| Number of Female Employees | 29 |
| | |
| Training Distribution | |
| % of Employees | 40% |
| % of Male Staff | 33% |
| % of Female Staff | 47% |
| % of Senior Management Staff | 90% |
| % of Middle Management Staff | 81% |
| % of Other Employees | 38% |
| | |
| Average Training Hours per Employee | 4.4 |

***Labour Standards***

The Group strictly complies with the labour standards in the local jurisdictions where its businesses are located, including "Labour Law of the People's Republic of China"《中華人民共和國勞動法》, "Labour Contract Law of the People's Republic of China"《中華人民共和國勞動合同法》, "Provisions and Prohibition of Using Child Labour"《禁止使用童工規定》, "Law of the People's Republic of China on the Protection of Minors"《中華人民共和國未成年人保護法》as well as the Employment Ordinance (Cap. 57) of Hong Kong. Use of child or forced labour in our operations is strictly prohibited, and is enforced through verification of identity information of job candidates. We expect our suppliers to adhere to the same standard of labour practices.

## Operating Practices

### *Supply Chain Management*

The Group interacts with a number of suppliers and avoids use of a single supplier for products and services to minimise supply chain risks. We are committed to upholding high ethical and professional standards when dealing with suppliers. We have established and implemented a procedure for supplier monitoring and screening. Compliance with national and local laws and regulations is an essential criterion in our supplier-selection process. Supplier performance, including quality and safety is assessed regularly; in the event of unsatisfactory performance, the supplier will be required to take timely follow-up actions. Suppliers failing to comply with our standards can be suspended from initiating business operations with us.

In addition to our Engineering Business, our Quality Assurance team conducts factory inspections to assess the quality and suitability of the products, as well as to identify any failures during production. Our Procurement team will be informed should suppliers fail the inspection and such suppliers shall subsequently be removed from the approved list.

### *Product Responsibility*

The quality of our products and impeccable customer service is the foundation to the long-term sustainability of our business. The Group aspires to deliver high-standard beauty solutions, engineering products and related professional services to our customers.

We are committed to delivering products of high quality. Our Engineering Business has implemented a quality management system in line with the ISO9001:2015 standard. Independent and accredited laboratories are engaged to assure the quality, performance and durability of our products such as bomb-disposal robots, to ensure compliance with customer specifications and relevant regulatory requirements. With an aim to facilitate quality management efficiency at our Engineering Business, we plan to set up in-house testing laboratories for our robotic and line machinery products at our future manufacturing facilities. Products that do not meet customer requirements or have potential safety concerns will be subject to investigation and recall; follow-up actions will be timely taken as appropriate to identify and rectify the root cause.

Our Beauty Business has stringent criteria on product ingredients, certification and the place of origin when procuring beauty products. Products that are free of fragrance and preservatives are given priority. Products are tested by our experienced staff prior to customer use. We have stronger preferences on skincare treatment machines that are being certified by reputable authorities such as the US Food and Drug Administration.

Our medical skincare centre adheres to its “3S” core values when delivering beauty therapy services to the customers, namely “strive for excellent and sustainable development” through excellent service, “self-esteem” through professional expertise and “sincere” through understanding the needs of customers.

Labelling and advertising of our products and services are in line with the applicable regulations to ensure that the information conveyed is complete and accurate.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Customer Feedback*

We welcome constructive feedback from our customers and provide them with various communication channels. At our Beauty Business, customer opinions and feedback is collected through questionnaires after therapy. Customer complaints including post-treatment allergic reactions are documented in writing upon receipt. Our customer service staffs are well-trained and capable of handling customer complaints in a timely and efficient manner. Compensation is decided and provided to customers based on our established procedures for confirmed cases.

***Privacy and Intellectual Property Rights***

The Group is committed to protecting customer privacy and has established and implemented respective policies and procedures. All employees are required to sign a Confidentiality and Non-Disclosure Agreement and abide by its requirements.

The Group respects intellectual property rights and is committed to avoiding any infringement of intellectual property rights of other parties. Employees are required to obtain licences or other permissions and follow relevant requirements. Most of our robotics products are developed in-house and out of our patent applications, 6 patents were granted in Mainland China in 2018. Our employees are required to strictly follow relevant laws and regulations, as well as internal policies and procedures in protecting our own intellectual property rights from infringement.

***Anti-corruption***

The Group attaches great importance to business integrity and upholds high standards in business ethics. We have zero tolerance for any form of corruption, bribery, fraud, and money laundering and have specified relevant requirements to all employees in the employee handbook. Employees are provided with channels to raise concerns and report any suspected misconduct in a confidential manner. Reported cases are investigated and evidences are collected for evaluation. Where required, necessary actions will be taken based on the conclusions of the investigation.

The operation of the Group complies with the standards of conduct specified in the relevant regulations and laws. This includes "Criminal Law of the PRC"《中華人民共和國刑法》, "Interim Provisions on Banning Commercial Bribery"《關於禁止商業賄賂行為的暫行規定》in mainland China, and "Prevention of Bribery Ordinance" of Hong Kong. There were no cases of corruption during the reporting period.

## C. COMMUNITY INVESTMENT

The Group strives to contribute to the community with its resources and expertise. We have been supporting non-profit organizations in their community projects by offering charitable donations.

In 2018, we made a donation of about HK$7,000 to support the operations of Médecins Sans Frontieres, an international, independent medical humanitarian organisation that delivers emergency aid to people affected by armed conflict, epidemics, pandemics, natural disasters and exclusion from health care. In the coming years, we will continue to seek opportunities to cooperate with other external organisations to increase our community outreach and contribution.

**Regulatory Compliance**

During the Reporting Period, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to areas such as environmental protection, employment, labour practices and operating practices.

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SuperRobotics Limited
*(incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of SuperRobotics Limited (the "Company") and its subsidiaries (the "Group") set out on pages 51 to 114, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

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

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

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.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition from sales of prepaid treatment services; and

- Impairment assessment of goodwill arising from the acquisitions of Engineering Services Inc. ("ESI") and China Honest Enterprises Limited ("China Honest").

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Revenue recognition from sales of prepaid treatment services** | |
| Refer to Notes 2.21, 4(c), 5 and 26 to the consolidated financial statements<br><br>During the year ended 31 December 2018, revenue from treatment services contracts amounting to HK$49,320,000, and HK$4,321,000 of which was related to recognition of revenue from expired treatment contracts. At 31 December 2018, the Group had contract liabilities of HK$31,149,000.<br><br>As described in the Accounting Policies in Note 2.21 to the consolidated financial statements, revenue from service income is recognised when services are provided. Payments from customers that are related to services not yet rendered are shown as contract liabilities in the consolidated statement of financial position.<br><br>The Group recognises revenue in the consolidated statement of comprehensive income for prepaid service contracts expired in accordance with the contractual service periods stipulated in the respective sales contracts, which last for 3 months to 2 years from the date of the relevant contract. Nevertheless, the Group may, depending on facts and circumstances for each case, accommodate certain amount of redemption after expiry of the contractual service period. Accordingly, at each reporting date, the Group assesses the level of expired revenue to be deferred based on past experience for the level of subsequent redemptions. Therefore, the recognition of revenue upon expiry of prepaid treatment contracts involves significant judgement as management is required to assess whether the performance obligations for service contracts are discharged. | Our procedures in relation to management's assessment of revenue recognition upon expiry of prepaid treatment contracts include the following procedures:<br><br>- We obtained an understanding and evaluated the appropriateness of the basis management used in the assessment (including the applied rate of redemption after expiry) for the level of expired revenue to be deferred.<br><br>- We compared the applied rate of subsequent redemption used in the assessment to the historical records on redemption after expiry.<br><br>- We tested the data accuracy of the historical redemption records used by management, on a sample basis, by checking whether these prepaid treatment contracts were redeemed subsequently to the expiry.<br><br>Based on available evidence, we found the assessment made by management in relation to the revenue recognition upon expiry of prepaid treatment contracts to be supportable. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment assessment of goodwill arising from the acquisitions of ESI and China Honest** | |
| Refer to Notes 2.5, 4(b) and 16 to the consolidated financial statements<br><br>As at 31 December 2018, goodwill of the Group in relation to the acquisitions of ESI and China Honest amounted to HK$75,759,000 and HK$18,266,000, respectively. As described in the Accounting Policies in Note 2.5 to the consolidated financial statements, the Group is required to, at least annually, test goodwill for impairment. The assessment process involves significant judgement as it is to determine the value-in-use of the cash generating units relating to the provision of engineering products and related services and China Honest respectively based on assumptions used in the cash flow forecast that may be affected by unexpected future market or economic conditions, in particular to revenue growth rate and the applied discount rate.<br><br>The Group concluded that there is sufficient headroom as a result of the assessment with no impairment loss being recorded by management. We focused on the risk that the balance of the goodwill may be overstated and that an impairment loss may be required. | Our procedures in relation to management's impairment assessment of goodwill included:<br><br>- We assessed the objectivity, independence and expertise of the external valuer used by management.<br><br>- We used our in-house experts to assist us in evaluating the appropriateness of the value-in-use calculations methodology adopted by management and the external valuer.<br><br>- We discussed with management about and evaluated the underlying key assumptions used in the cash flow forecasts (including revenue growth rate and discount rate used), taking into account market developments.<br><br>- We compared the Group's forecasts for the current year made as of 31 December 2017 to the actual results of the current year to assess the quality of management's forecasting process.<br><br>- We reconciled the cash flow forecasts to management's approved budgets and assessed the reasonableness of these budgets by comparing historical information and business plan.<br><br>- We benchmarked the revenue growth rate adopted by the Group to the revenue growth rates adopted by other market players.<br><br>- We evaluated and discussed discount rates used in the calculations by comparing with the industries or market data.<br><br>- We tested the mathematical accuracy of the underlying value-in-use calculations.<br><br>- We further evaluated the sensitivity analysis performed by management around the key assumptions applied to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired. |

# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION

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

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

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

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

## RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is 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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Benson Wai Bong Wong.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 26 March 2019

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **63,739** | 78,799 |
| Cost of sales | | **(44,060)** | (48,445) |
| Gross profit | | **19,679** | 30,354 |
| Other income | 6 | **1,889** | 757 |
| Other gains, net | 7 | **970** | 757 |
| Selling and distribution expenses | | **(15,682)** | (8,583) |
| Administrative expenses | | **(136,023)** | (122,694) |
| Operating loss | 8 | **(129,167)** | (99,409) |
| Finance costs | 9 | **(15)** | (6) |
| Loss before income tax | | **(129,182)** | (99,415) |
| Income tax credit | 12 | **1,476** | 2,304 |
| Loss for the year | | **(127,706)** | (97,111) |
| Other comprehensive income: | | | |
| *Item that may be subsequently reclassified to profit or loss* | | | |
| Exchange differences arising on translation of foreign operations | | **(9,733)** | 9,629 |
| Total other comprehensive (loss)/income for the year | | **(9,733)** | 9,629 |
| Total comprehensive loss for the year | | **(137,439)** | (87,482) |
| (Loss)/profit attributable to: | | | |
| Owners of the Company | | **(132,345)** | (99,059) |
| Non-controlling interests | | **4,639** | 1,948 |
| | | **(127,706)** | (97,111) |
| Total comprehensive (loss)/income for the year attributable to: | | | |
| Owners of the Company | | **(142,708)** | (89,424) |
| Non-controlling interests | | **5,269** | 1,942 |
| | | **(137,439)** | (87,482) |
| Loss per share to the owners of the Company for the year | | | |
| Basic and diluted (expressed in HK cent per share) | 13 | **(27.41)** | (21.36) |

The notes on pages 56 to 114 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2018*

| | *Note* | **2018** | 2017 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | *15* | **25,679** | 22,122 |
| Intangible assets | *16* | **113,387** | 128,144 |
| Deposits | *19* | **3,609** | 2,523 |
| | | **142,675** | 152,789 |
| Current assets | | | |
| Inventories | *17* | **28,900** | 5,915 |
| Trade receivables | *18* | **13,536** | 14,496 |
| Deposits, prepayments and other receivables | *19* | **11,343** | 13,301 |
| Financial assets at fair value through profit or loss | *20* | **—** | 97,627 |
| Restricted bank deposits | *21* | **18,729** | 18,727 |
| Cash and cash equivalents | *21* | **43,604** | 80,434 |
| | | **116,112** | 230,500 |
| Total assets | | **258,787** | 383,289 |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to owners of the Company | | | |
| Share capital — Ordinary shares | *22* | **50,622** | 47,622 |
| Share capital — Preferred shares | *22* | **—** | 3,000 |
| Reserves | | **130,413** | 264,945 |
| | | **181,035** | 315,567 |
| Non-controlling interests | | **5,425** | 2,250 |
| Total equity | | **186,460** | 317,817 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2018*

| | Note | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Trade payables | 23 | **4,836** | 821 |
| Accruals and other payables | 24 | **29,639** | 25,151 |
| Other borrowings | 25 | **53** | 1,568 |
| Tax payables | | **1,491** | 360 |
| Contract liabilities | 26 | **31,149** | 30,030 |
| | | **67,168** | 57,930 |
| Non-current liability | | | |
| Deferred taxation | 27 | **5,159** | 7,542 |
| | | **5,159** | 7,542 |
| Total liabilities | | **72,327** | 65,472 |
| Total equity and liabilities | | **258,787** | 383,289 |
| Net assets | | **186,460** | 317,817 |

The consolidated financial statements were approved and authorised for issued by the Board of Directors on 26 March 2019 and are signed on its behalf.

**Su Zhituan**
*Chairman, Director*

**Chen Min**
*Director*

The notes on pages 56 to 114 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2018*

| | Share capital-ordinary shares HK$'000 | Share capital-preferred shares HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 (Note a) | Translation reserve HK$'000 | Share option reserve HK$'000 | Accumulated losses HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2017** | 45,522 | 3,000 | 359,013 | 27,141 | (342) | — | (174,287) | 260,047 | 308 | 260,355 |
| (Loss)/profit for the year | — | — | — | — | — | — | (99,059) | (99,059) | 1,948 | (97,111) |
| Other comprehensive income for the year: | | | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | 9,635 | — | — | 9,635 | (6) | 9,629 |
| Total comprehensive (loss)/profit for the year | — | — | — | — | 9,635 | — | (99,059) | (89,424) | 1,942 | (87,482) |
| Placement of new shares | 2,100 | — | 129,150 | — | — | — | — | 131,250 | — | 131,250 |
| Equity-settled share-based compensation | — | — | — | — | — | 13,694 | — | 13,694 | — | 13,694 |
| **At 31 December 2017 and at 1 January 2018** | 47,622 | 3,000 | 488,163 | 27,141 | 9,293 | 13,694 | (273,346) | 315,567 | 2,250 | 317,817 |
| (Loss)/profit for the year | — | — | — | — | — | — | (132,345) | (132,345) | 4,639 | (127,706) |
| Other comprehensive income for the year: | | | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | (9,739) | — | — | (9,739) | 6 | (9,733) |
| Total comprehensive (loss)/profit for the year | — | — | — | — | (9,739) | — | (132,345) | (142,084) | 4,645 | (137,439) |
| Conversion of preferred shares | 3,000 | (3,000) | — | — | — | — | — | — | — | — |
| Equity-settled share-based compensation | — | — | — | — | — | 7,552 | — | 7,552 | — | 7,552 |
| Dividend paid to non-controlling interests | — | — | — | — | — | — | — | — | (1,470) | (1,470) |
| At 31 December 2018 | 50,622 | — | 488,163 | 27,141 | (446) | 21,246 | (405,691) | 181,035 | 5,425 | 186,460 |

*Note:*

**(a) Contributed surplus**

With effect from 22 April 2014, the Company had been deregistered in the Cayman Islands and duly continued in Bermuda as an exempted company under the laws of Bermuda (the "Change in Domicile"). Contributed surplus represents the amount transferred from share premium for the purpose of setting off against the accumulated losses pursuant to the Companies Act 1981 of Bermuda and the special resolution passed at the extraordinary general meeting held on 28 February 2013 as a result of the Change in Domicile and related capital reorganisation.

The notes on pages 56 to 114 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2018*

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash used in operations | 32 | **(122,408)** | (98,153) |
| Hong Kong profits tax paid | | **(776)** | (450) |
| China corporate income tax paid | | **—** | (295) |
| Canada corporate tax refunded | | **1,458** | 1,591 |
| Net cash used in operating activities | | **(121,726)** | (97,307) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **862** | 1,354 |
| Placement of restricted bank deposits | | **(2)** | (6,383) |
| Proceeds from disposal of property, plant and equipment | 32 | **192** | 1,752 |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **107,946** | 56,485 |
| Purchases of financial assets at fair value through profit or loss | | **(9,554)** | (144,116) |
| Purchases of property, plant and equipment | | **(11,132)** | (18,718) |
| Acquisition of a subsidiary, net of cash | | **—** | 5,919 |
| Net cash generated from/(used in) investing activities | | **88,312** | (103,707) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Interest paid | | **(15)** | (6) |
| Proceeds from placement of new shares | | **—** | 131,250 |
| Repayment of other borrowings | | **(1,515)** | (392) |
| Dividend paid to non-controlling interests | | **(1,470)** | — |
| Net cash (used in)/generated from financing activities | | **(3,000)** | 130,852 |
| Net decrease in cash and cash equivalents | | **(36,414)** | (70,162) |
| Cash and cash equivalents at the beginning of the year | | **80,434** | 152,218 |
| Effect of foreign exchange rate changes | | **(416)** | (1,622) |
| Cash and cash equivalents at the end of the year | 21 | **43,604** | 80,434 |

The notes on pages 56 to 114 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

SuperRobotics Limited (the "Company") and its subsidiaries (together "the Group") are principally engaged in the sale of beauty products, provision of therapy services and provision of engineering products and related services.

The Company is a limited liability company incorporated in the Cayman Islands and with effect from 22 April 2014, the Company deregistered in the Cayman Islands and continued in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

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

***(a) New and amended standards adopted by the Group***

During the year, the Group has adopted the following new standards, amendments and interpretations to standards, which are mandatory for accounting period beginning on 1 January 2018.

| | |
|---|---|
| HKFRS 2 (Amendment) | Classification and measurement of share-based payment transactions |
| HKFRS 4 (Amendment) | Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts |
| HKFRS 9 | Financial instruments |
| HKFRS 15 | Revenue from contracts with customers |
| HKFRS 15 (Amendment) | Clarifications to HKFRS 15 |
| HK (IFRIC) 22 | Foreign currency transactions and advance consideration |
| HKAS 28 (Amendment) | Investment in associate and joint ventures |
| HKAS 40 (Amendment) | Transfer of investment property |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(a)* ***New and amended standards adopted by the Group*** *(continued)*

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 2.1(c) below. The other standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

#### *(b)* ***New standards, amendments to standards and interpretations not yet adopted***

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been early adopted by the Group in preparing these consolidated financial statements.

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| Annual improvements projects (Amendment) | Annual Improvements 2015-2017 Cycle | 1 January 2019 |
| HKAS 19 (Amendment) | Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| HKAS 28 (Amendment) | Long-term Interests in Associates and Joint Ventures | 1 January 2019 |
| HKFRS 9 (Amendment) | Prepayment Features with Negative Compensation | 1 January 2019 |
| HKFRS 16 | Leases | 1 January 2019 |
| HKFRS 17 | Insurance Contracts | 1 January 2021 |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments (new interpretation) | 1 January 2019 |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting | 1 January 2020 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |

*HKFRS 16 Leases*

The Group is a lessee of certain offices and beauty centre which are currently classified as operating leases. The Group's current accounting policy for such leases, as set out in Note 2.24, is to record the rental expenses in the Group's consolidated statement of comprehensive income for the current year with the related operating lease commitments being separately disclosed in Note 30. HKFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognise leases outside of the consolidated statement of financial position. Instead, all non-current leases must be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the consolidated statement of financial position.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(b) New standards, amendments to standards and interpretations not yet adopted* (continued)

*HKFRS 16 Leases (continued)*

In the consolidated statement of comprehensive income, as a result, the annual rental and amortisation expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right of use of assets and interest expense arising from the financial liabilities will increase. The new standard is not expected to apply until the financial year beginning on or after 1 January 2019.

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

#### *(c) Change in accounting policies*

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial statements.

*(i) HKFRS 9 Financial Instruments*

HKFRS 9 replaces the provision of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedging accounting.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The Group considers the credit risk characteristics and the days past due to measure the expected credit losses. For the year ended 31 December 2018, the expected credit losses rate for customers of sales of goods is minimal, given there is no history of significant defaults from customers and insignificant impact from forward-looking estimates. The assessed expected credit losses for trade receivables are not material.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(c) Change in accounting policies (continued)*

*(i) HKFRS 9 Financial Instruments (continued)*

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor,
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments without justification

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Other financial assets at amortised cost

For other financial assets at amortised cost, including deposits and other receivables, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit losses which is close to zero.

Impairment losses on other financial assets at amortised cost are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Group has adopted HKFRS 9 from 1 January 2018 which do not have any material impact on the Group's consolidated financial statements.

*(ii) HKFRS 15 Revenue from Contracts with Customers*

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in HKFRS 15, comparative figures have not been restated. The application of HKFRS 15 does not have material impact on the timing and amounts of revenue recognition of the Group.

Contract liabilities represent the advance payments from customers which were previously presented as deferred revenue under the consolidated statement of financial position. Upon adoption of HKFRS15, an amount of HK$30,030,000 is reclassified to contract liabilities as at 1 January 2018.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

#### *(a) Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified either as equity or financial liability.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Consolidation *(continued)*

#### *(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### *(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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

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

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors who collectively make strategic decisions.

2.4 **Foreign currency translation**

*(a)* ***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

*(b)* ***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

*(c)* ***Group companies***

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income presented are translated at average exchange rates (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 Foreign currency translation *(continued)*

#### *(d) Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to consolidated statement of comprehensive income.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to consolidated statement of comprehensive income.

### 2.5 Intangible assets

#### *(a) Goodwill*

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.5 Intangible assets *(continued)*

#### *(b) Other intangible assets*

Intangible assets acquired in business combination are identified and recognised separately from goodwill where they satisfy the definition of intangible assets and their fair values can be measured reliably. Such intangible assets are recognised at their fair values at the acquisition date. The other intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives of 5 years.

### 2.6 Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using 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. The principal annual rates are as follows:

| | |
|---|---|
| Plant and machinery | 20%-33% |
| Leasehold improvement | 20%-33% |
| Furniture, fixtures and equipment | 14.29%-33% |
| WIFI and connection equipment | 10%-33% |
| Motor vehicles | 20%-25% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 Impairment of non-financial assets

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

### 2.8 Financial assets

#### *(a) Classification*

From 1 January 2018, the Group classifies its financial assets category as financial assets to be measured at amortised cost.

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

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

#### *(b) Recognition and derecognition*

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

#### *(c) Measurement*

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

*Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classified its debt instruments into financial assets at amortised cost:

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.8 Financial assets *(continued)*

#### *(c)* ***Measurement*** *(continued)*

*Debt instruments (continued)*

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised

#### *(d)* ***Impairment***

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 2.1(c)(i) for further details.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.8 Financial assets *(continued)*

#### *(e) Accounting policies applied until 31 December 2017*

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policies.

Until 31 December 2017 the Group classified its financial assets in the following categories:

- Loans and receivables, and

- Financial assets at fair value through profit or loss

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition.

The Group classifies its financial assets in the following categories: loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(i) Reclassification*

The Group could choose to reclassify a non-derivatives trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event choose to reclassify financial assets that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and not reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.8 Financial assets *(continued)*

#### *(e) Accounting policies applied until 31 December 2017* *(continued)*

*(ii) Subsequent measurement*

The measurement at initial recognition did not change an adoption of HKFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables were subsequently carried at amortised cost using the effective interest method.

Financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes from changes in fair value are recognised as follows:

- For “financial assets at FVPL” — in profit or loss within other gains/(loss)
- For other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

*(iii) Impairment*

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets were impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the assets was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument’s fair value using an observable market price.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.8 Financial assets *(continued)*

#### (e) *Accounting policies applied until 31 December 2017* *(continued)*

*(iii) Impairment (continued)*

Assets carried at amortised cost *(continued)*

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Impairment testing of trade receivables is described in Note 2.1(c)(i).

### 2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

### 2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined using the 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.

When inventories are sold, the carrying amounts of those inventories is recognised as cost of sales in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as cost of sales in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is offset against the cost of sales in the period in which the reversal occurs.

### 2.11 Trade and other receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the group's accounting for trade receivables and Note 2.1(c)(i) for a description of the group's impairment policies.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with banks.

### 2.13 Trade and other payables

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

Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

### 2.14 Borrowings

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

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

### 2.15 Borrowing costs

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.16 Current and deferred income tax

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

#### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *(b) Deferred income tax*

*Inside basis differences*

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

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

*Outside basis differences*

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.16 Current and deferred income tax *(continued)*

#### *(c) Offsetting*

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

### 2.17 Share capital

Ordinary shares are classified as equity.

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

### 2.18 Employee benefits

#### *(a) Pension obligations*

The Group operates a number of defined contribution plans in Hong Kong, the Mainland China and Canada. The schemes are generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.19 Share-based payments

Share-based compensation benefits are provided to employees. Information relating to these schemes is set out in Note 28.

***Employee options***

The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price)
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining employees of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

### 2.20 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.21 Revenue recognition

#### *(a) Sale of robots*

The Group sell robots to the customers. Sales of robots are recognised when control of products has transferred, being when the products are delivered to the customers. Delivery occurs when the robots have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term sated in the contract, which is consistent with market practice. The group's obligation to repair or replace faulty robots under the standard warranty terms is recognised as a provision.

#### *(b) Sale of beauty products*

The Group operates a retail stores selling beauty products. Revenue from the sales of beauty products are recognised when the Group sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases the beauty product and takes delivery in store. Retail sales are usually in cash or by credit card.

#### *(c) Revenue from therapy service*

Revenue from therapy services is recognised when the services are provided or the performance obligations for the services are lapsed or remote. Payments that are related to services not yet rendered or services for which performance obligation not yet discharged are shown as contract liabilities in the consolidated statement of financial position.

### 2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

### 2.23 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.24 Leases

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

### 2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, as appropriate.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest-rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

***(a) Market risk***

*(i) Foreign exchange risk*

The Group mainly operates in Hong Kong, Mainland China (the "PRC") and Canada with transactions settled in Hong Kong dollars ("HK$"), Renminbi ("RMB"), Canadian dollars ("CAD") and US dollars ("USD"). The Group is mainly exposed to foreign exchange risk arising from future commercial transactions, recognised assets and liabilities denominated in currencies other than the functional currency of the group entities to which they relate.

As the recognised assets and liabilities of the group entities that have been denominated in currencies other than the functional currency are minimal, management believes that the exchange rate risk for translations of recognised assets and liabilities from functional currency and presentation currency do not have material impact to the Group.

*(ii) Price risk*

The Group's listed securities are susceptible to market price risk arising from uncertainties about future prices of those financial assets at fair value through profit or loss. Management manages this exposure by maintaining a portfolio of investments with different risk profiles. During the year ended 31 December 2018, the Group has disposed all the financial assets at fair value through profit or loss, and the management considered that the exposure of listed securities to price risk is minimal.

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(a)* ***Market risk*** *(continued)*

*(iii) Cash flow and fair value interest rate risk*

The Group has no significant interest-bearing assets and liabilities except for certain bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group generally does not use financial derivatives to hedge its exposure to interest rate risk.

Management does not anticipate significant impact resulted from the changes in interest rates on interest-bearing assets and bank borrowings.

#### ***(b) Credit risk***

The Group's credit risk is primarily attributable to trade receivables and cash and bank balances. At 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and the financial guarantees issued by the Group arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the executive directors of the Company are responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables and debt investment at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the executive directors of the Company consider that the Group's credit risk is significantly reduced.

The Group deposited its cash and bank balances with approved and reputable banks. Bankruptcy or insolvency of the banks may cause the Group's right with respect to cash and cash equivalents held to be delayed or limited. Management of the Company monitors the credit rating of these banks on an ongoing basis, and considers that the Group's exposure to credit risk as at 31 December 2018 and 31 December 2017 were minimal.

To manage the credit risk arising from wealth management products, the Group transacts with a reputable financial institution in the PRC. There has been no recent history of default in relation to the financial institution.

The Group does not have any other significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(c) Liquidity risk*

Ultimate responsibility for liquidity risk rests with the Board, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate level of cash and cash equivalents and by continuously monitoring forecast and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

| | Less than 1 year | Between 1 and 5 years | Over 5 years | Total un-discounted cash flows | Total carrying amount |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 31 December 2018 | | | | | |
| Trade payables | 4,836 | — | — | 4,836 | 4,836 |
| Accruals and other payables | 14,656 | — | — | 14,656 | 14,656 |
| Other borrowings | 53 | — | — | 53 | 53 |
| | 19,545 | — | — | 19,545 | 19,545 |
| At 31 December 2017 | | | | | |
| Trade payables | 821 | — | — | 821 | 821 |
| Accruals and other payables | 14,121 | — | — | 14,121 | 14,121 |
| Other borrowings | 1,568 | — | — | 1,568 | 1,568 |
| | 16,510 | — | — | 16,510 | 16,510 |

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.2 Capital risk management

The primary objective of the Group's capital management is to safeguard that the entities in the Group will be able to continue as a going concern and maintain healthy ratios in order to support its business and enhance shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue of new shares and repurchase of shares as well as obtain borrowings from banks or other third parties. The Group's capital management objective, policies or processes were unchanged from prior year.

The Group is not subject to any external imposed capital requirements.

The Group monitors capital using gearing ratio, which is the Group's total borrowings over equity attributable to owners of the Company. The gearing ratios as at 31 December 2018 and 31 December 2017 were as follows:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Total borrowings *(Note a)* | **53** | 1,568 |
| Less: cash and cash equivalents | **(43,604)** | (80,434) |
| Net cash | **(43,551)** | (78,866) |
| Equity attributable to owners of the Company | **181,035** | 315,567 |
| Gearing ratio | **0.03%** | 0.5% |

*Note:*

(a) Borrowings include other borrowings.

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

### 3.3 Fair value estimation

According to HKFRS 13, financial instruments measured in the statement of financial position at fair value are required to disclose the fair value measurements by level of the following fair value measurement hierarchy:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 — Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As at 31 December 2018, no financial assets or liabilities are measured as fair value. The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017.

| | **Level 1** *HK$'000* | **Level 2** *HK$'000* | **Level 3** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| As at 31 December 2017 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| — Listed securities | 4,471 | — | — | 4,471 |
| — Wealth management products | — | 93,156 | — | 93,156 |
| | 4,471 | 93,156 | — | 97,627 |

The fair value of financial instruments traded in active markets (such as publicly traded available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Group is the current bid price.

There were no transfers among levels 1, 2 and 3 during the year ended 31 December 2018.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

### (a) Impairment of non-financial assets

Non-financial assets including property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates.

Management judgement is required in asset impairment review particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset is less than the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) whether appropriate key assumptions are applied in preparing cash flow projections including using an appropriate discount rate. Changing the assumptions selected by management in the impairment assessment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to charge an impairment loss to the consolidated statement of comprehensive income.

### (b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.5. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 16).

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

### (c) Revenue recognition from sales of prepaid treatment services

Revenue from sales of prepaid treatment services is recognised when the services are provided or the performance obligations for the treatment services are lapsed upon the expiry of the treatment contracts, in accordance with the accounting policy stated in Note 2.21. Whether the performance obligations are lapsed are varied from case to case and depend on the facts and circumstances for each case. Management judgment is required to assess whether the performance obligations are lapsed at the end of each reporting period based on past experiences and redemption history.

## 5 SEGMENT INFORMATION

The Group's operating segments have been determined based on the information reported to and reviewed by the executive directors, being the Group's chief operating decision-maker, which are used for the purposes of assessing performance and making strategic decisions. The Group's operating segments are structured and managed separately according to the nature of their operations, and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other operating segments. The Group currently has three operating segments:

(a) Sale of beauty products

(b) Provision of therapy services

(c) Provision of engineering products and related services (Note)

*Note:*

For the engineering products, the Group offers WLAN and WIFI systems, and robotic products. For the provision of engineering related services, the Group provides equipment installation, support and maintenance services for WLAN and WIFI systems as well as robotics and automation systems.

## 5 SEGMENT INFORMATION *(continued)*

An analysis of the Group's revenue, results, assets, liabilities and other selected financial information by operating segment are as follows:

**For the year ended 31 December 2018**

| | Sale of beauty products | Provision of therapy services | Provision of engineering products and related services | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | | | | |
| Segment revenue | 3,540 | 49,320 | 10,879 | 63,739 |
| Timing of revenue recognition | | | | |
| At a point in time | 3,540 | 49,320 | 10,879 | 63,739 |
| | 3,540 | 49,320 | 10,879 | 63,739 |
| Results | | | | |
| Segment (loss)/profit | (48) | 12,063 | (121,461) | (109,446) |
| Interest income on bank deposits *(Note 6)* | | | | 862 |
| Financial assets at fair value through profit or loss — fair value gain *(Note 7)* | | | | 856 |
| Finance costs *(Note 9)* | | | | (15) |
| Unallocated corporate income | | | | 1,027 |
| Unallocated corporate expenses | | | | (22,466) |
| Loss before income tax | | | | (129,182) |
| Income tax credit *(Note 12)* | | | | 1,476 |
| Loss for the year | | | | (127,706) |

## 5 SEGMENT INFORMATION *(continued)*

**At 31 December 2018**

| | Sale of beauty products | Provision of therapy services | Provision of engineering products and related services | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Assets and liabilities | | | | |
| Assets | | | | |
| Segment assets for operating segments | 5 | 57,559 | 196,361 | 253,925 |
| Unallocated corporate assets | | | | 4,862 |
| Consolidated total assets | | | | 258,787 |
| Liabilities | | | | |
| Segment liabilities for operating segments | 287 | 34,931 | 34,329 | 69,547 |
| Unallocated corporate liabilities | | | | 2,780 |
| Consolidated total liabilities | | | | 72,327 |

**For the year ended 31 December 2018**

| | Sale of beauty products | Provision of therapy services | Provision of engineering products and related services | Unallocated | Consolidated |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Other segment information | | | | | |
| Amount included in the measure of segment (loss)/ profit and segment assets | | | | | |
| Additions to property, plant and equipment | — | 1,190 | 9,174 | 768 | 11,132 |
| Amortisation of other intangible assets | — | — | 7,032 | — | 7,032 |
| Depreciation of property, plant and equipment | 24 | 1,401 | 4,904 | 211 | 6,540 |
| Share-based compensation | — | — | 7,552 | — | 7,552 |

## 5 SEGMENT INFORMATION *(continued)*

An analysis of the Group's revenue, results, assets, liabilities and other selected financial information by operating segment are as follows:

**For the year ended 31 December 2017**

| | Sale of beauty products *HK$'000* | Provision of therapy services *HK$'000* | Provision of engineering products and related services *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| Revenue | | | | |
| Segment revenue | 4,228 | 42,382 | 32,189 | 78,799 |
| Timing of revenue recognition | | | | |
| At a point in time | 4,228 | 42,382 | 32,189 | 78,799 |
| | 4,228 | 42,382 | 32,189 | 78,799 |
| Results | | | | |
| Segment (loss)/profit | (714) | 4,714 | (79,570) | (75,570) |
| Interest income on bank deposits *(Note 6)* | | | | 250 |
| Financial assets at fair value through profit or loss — fair value loss *(Note 7)* | | | | (346) |
| Finance costs *(Note 9)* | | | | (6) |
| Unallocated corporate income | | | | 508 |
| Unallocated corporate expenses | | | | (24,251) |
| Loss before income tax | | | | (99,415) |
| Income tax credit *(Note 12)* | | | | 2,304 |
| Loss for the year | | | | (97,111) |

## 5 SEGMENT INFORMATION *(continued)*

**At 31 December 2017**

| | Sale of beauty products HK$'000 | Provision of therapy services HK$'000 | Provision of engineering products and related services HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| Assets and liabilities | | | | |
| Assets | | | | |
| Segment assets for operating segments | 61 | 46,466 | 286,874 | 333,401 |
| Unallocated corporate assets | | | | 49,888 |
| Consolidated total assets | | | | 383,289 |
| Liabilities | | | | |
| Segment liabilities for operating segments | 354 | 31,989 | 28,967 | 61,310 |
| Unallocated corporate liabilities | | | | 4,162 |
| Consolidated total liabilities | | | | 65,472 |

**For the year ended 31 December 2017**

| | Sale of beauty products HK$'000 | Provision of therapy services HK$'000 | Provision of engineering products and related services HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| Other segment information | | | | | |
| Amount included in the measure of segment (loss)/ profit and segment assets | | | | | |
| Additions to property, plant and equipment | — | 197 | 18,464 | 57 | 18,718 |
| Amortisation of other intangible assets | — | — | 6,986 | — | 6,986 |
| Depreciation of property, plant and equipment | 196 | 2,372 | 2,312 | 15 | 4,895 |
| Share-based compensation | — | — | 13,694 | — | 13,694 |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2017: Nil).

Segments results represent (loss incurred)/profit earned by each segment without allocating central administration items including directors' emoluments, other income, partial other losses, finance costs and income tax expense. This is the measure reported to the chief operating decision-makers for the purposes of resource allocation and assessment of segment performance.

## 5 SEGMENT INFORMATION *(continued)*

For the purposes of monitoring segment performance and allocating resources between segments:

— all assets are allocated to operating segments other than partial property, plant and equipment, partial deposits, prepayments and other receivables, financial assets at fair value through profit or loss, restricted bank deposits and cash and cash equivalents that are not attributable to individual segments. Assets used jointly by individual segments are allocated on the basis of the revenues earned by individual segments; and

— all liabilities are allocated to operating segments other than partial accruals and other payables, tax payables and other borrowings that are not attributable to individual segments.

**Entity-wide information**

Breakdown of the revenue from all services is as follows:

| | **2018** | 2017 |
|---|---|---|
| **Analysis of revenue by category** | ***HK$'000*** | *HK$'000* |
| Sales of beauty products | **3,540** | 4,228 |
| Provision of therapy services | **49,320** | 42,382 |
| Provision of engineering products and related services | **10,879** | 32,189 |
| | **63,739** | 78,799 |

**Geographical information**

The Group mainly operates in Hong Kong, Mainland China and Canada. The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

| | **Revenue from external customers** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **52,860** | 46,610 | **5,493** | 23,341 |
| Mainland China | **10,780** | 32,189 | **17,099** | 13,490 |
| Canada | **99** | — | **120,083** | 115,958 |
| | **63,739** | 78,799 | **142,675** | 152,789 |

**Information about major customers**

Revenue from one customer (2017: three customers) from "provision of engineering products and related services" operating segment, individually contributing over 10% of the total revenue of the Group, is HK$6,795,000 (2017: HK$31,403,000).

## 6 OTHER INCOME

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Management income | **120** | 232 |
| Interest income on bank deposits | **862** | 250 |
| Sundry income *(Note i)* | **907** | 275 |
| | **1,889** | 757 |

*Note:*

(i) The Sundry income includes government grants of HK$417,000 (2017: HK$nil). There are no unfulfilled conditions or other contingencies attaching to these grants.

## 7 OTHER GAINS, NET

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Gain on disposal of property, plant and equipment, net | **114** | 1,103 |
| Financial assets at fair value through profit or loss | | |
| — fair value gain/(loss) *(Note 20)* | **856** | (346) |
| | **970** | 757 |

## 8 OPERATING LOSS

Operating loss has been arrived at after charging:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Auditor's remuneration | | |
| — audit services | **1,780** | 1,560 |
| — non-audit services | **52** | 610 |
| Depreciation of property, plant and equipment *(Note 15)* | **6,540** | 4,895 |
| Amortisation of other intangible assets *(Note 16)* | **7,032** | 6,986 |
| Operating lease rentals in respect of rental premises | **15,130** | 13,547 |
| Staff costs (including directors' emoluments) *(Note 10)* | **77,181** | 73,610 |
| Write-off of property, plant and equipment | **15** | 145 |
| Provision for impairment of inventories | **—** | 445 |

## 9 FINANCE COSTS

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank charges | **15** | 6 |
| | **15** | 6 |

## 10 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and other allowances | **60,402** | 54,407 |
| Pension costs — defined contribution plans *(Note 31)* | **9,227** | 5,509 |
| Equity-settled share-based compensation *(Note 28)* | **7,552** | 13,694 |
| | **77,181** | 73,610 |

**Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include two (2017: two) directors whose emoluments are reflected in the analysis shown in Note 11. The emoluments payable to the remaining three (2017: three) individuals during the year are as follows:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and other allowances | **7,319** | 6,975 |
| Pension costs — defined contribution plans | **54** | 54 |
| | **7,373** | 7,029 |

The emoluments of the afore-mentioned individuals fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2018 | 2017 |
| Emolument bands (in HK dollar) | | |
| Nil — HK$1,000,000 | **—** | — |
| HK$1,000,001 — 2,000,000 | **1** | 1 |
| HK$2,000,001 — 4,000,000 | **2** | 2 |
| | **3** | 3 |

## 11 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

| Name of Director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Pension costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2018** | | | | | |
| Executive Directors | | | | | |
| Mr. Su Zhituan *(Note(iv))* | — | — | — | — | — |
| Mr. Sun Ziqiang *(Note(v))* | 1,828 | — | — | — | 1,828 |
| Mr. Chen Min *(Note(iv))* | 2,300 | — | — | 36 | 2,336 |
| Dr. Andrew Goldenberg | — | 3,924 | — | — | 3,924 |
| Mr. Cai Zhaoyang *(Note(vi))* | — | — | — | — | — |
| Mr. ZhangChong *(Note(vii))* | — | — | — | — | — |
| Mr. ZhangChongdi *(Note(viii))* | — | 1,636 | — | — | 1,636 |
| Non-Executive Director | | | | | |
| Mr. Cheng Yu *(Note(v))* | 44 | — | — | — | 44 |
| Independent Non-Executive Directors | | | | | |
| Mr. Chu Kin Wang, Peleus | 120 | — | — | — | 120 |
| Mr. Tam B Ray, Billy | 120 | — | — | — | 120 |
| Mr. Xie Zhichun *(Note(v))* | 117 | — | — | — | 117 |
| Mr. Tse Joseph *(Note(vii))* | 76 | — | — | — | 76 |
| For the year ended 31 December 2017 | | | | | |
| Executive Directors | | | | | |
| Mr. Cai Zhaoyang | — | 404 | — | 49 | 453 |
| Mr. Chan Kin Wah, Billy *(Note (iii))* | 50 | — | — | — | 50 |
| Mr. Lee Chan Wah *(Note (iii))* | 100 | — | 20 | — | 120 |
| Mr. ZhangChong | — | — | — | — | — |
| Mr. ZhangChongdi | — | 3,904 | — | — | 3,904 |
| Dr. Andrew Goldenberg | — | 3,903 | — | — | 3,903 |
| Independent Non-Executive Directors | | | | | |
| Mr. Chu Kin Wang, Peleus | 120 | — | — | — | 120 |
| Mr. Tam B Ray, Billy | 120 | — | — | — | 120 |
| Mr. Tse Joseph | 120 | — | — | — | 120 |

*Notes:*

(i) Emoluments paid or payable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking.

(ii) No remuneration has been paid by the Group to the Directors as an inducement to join upon joining the Group, or as compensation for loss of office during the current and prior years. There was no arrangement under which a Director waived or agreed to waive any remuneration during the current and prior years.

(iii) Resigned on 25 May 2017

(iv) Appointed on 1 June 2018

(v) Appointed on 20 August 2018

(vi) Resigned on 25 May 2018

(vii) Resigned on 20 August 2018

(viii) Resigned on 1 June 2018

## 11 BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

**(b) Directors' retirement benefits and termination benefits**

None of the directors received or will receive any retirement benefits or termination benefits during the year (2017: Nil).

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

During the year ended 31 December 2018, the Company did not pay consideration to any third parties for making available directors' services (2017: Nil).

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

There are no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled bodies corporate by and connected entities with such directors (2017: Nil).

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

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

## 12 INCOME TAX CREDIT

Hong Kong profits tax has been provided for at the rate of 8.25% on assessable profits up to HK$2,000,000 and 16.5% on any part of assessable profits over HK$2,000,000 (2017: 16.5%). The Group's subsidiaries in Mainland China are subject to the China corporate income tax at a rate of 25% (2017: 25%) on the estimated assessable profit. However, one of the Group's subsidiaries in Mainland China is subject to the China Corporate Income Tax at the rate of 15% for the 3 years ending 31 December 2019, after being assessed as a high and new technology enterprise. No income tax has been provided for the subsidiaries in Canada since the subsidiaries had no assessable profit for the year ended 31 December 2018 (2017: nil).

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong profits tax: | | |
| — Current taxation | **(1,908)** | (1,070) |
| China corporate income tax: | | |
| — Under-provision in prior year | **—** | (9) |
| Canada corporation income tax incentive *(Note a)* | **1,458** | 1,591 |
| Deferred taxation *(Note 27)* | **1,926** | 1,792 |
| | **1,476** | 2,304 |

*Note:*

(a) One of the Company's subsidiaries in Canada claimed a refundable tax credit in being a qualifying corporation for qualified expenditures on scientific research and experimental development performed in Ontario. The amount of HK$1,458,000 (2017: HK$1,591,000) of Ontario innovation tax credit was refunded by Canada Revenue Agency.

## 12 INCOME TAX CREDIT *(continued)*

The difference between the actual income tax charged to the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rates to profit before income tax can be reconciled as follows:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss before income tax | **(129,182)** | (99,415) |
| Tax calculated at the domestic income tax rates | **24,846** | 22,129 |
| Income not subject to tax | **68** | 470 |
| Expenses not deductible for tax purposes | **(5,974)** | (7,747) |
| Tax losses not recognized | **(18,984)** | (14,071) |
| Effect of withholding taxes *(Note 27)* | **62** | (59) |
| Tax incentive *(Note a)* | **1,458** | 1,591 |
| Under provision in prior year | **—** | (9) |
| Income tax credit | **1,476** | 2,304 |

## 13 LOSS PER SHARE

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

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss for the year attributable to owners of the Company | **132,345** | 99,059 |

| | 2018 | 2017 |
|---|---|---|
| | *'000* | *'000* |
| Number of ordinary shares | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **482,877** | 463,792 |

For the years ended 31 December 2018 and 31 December 2017, the computation of diluted loss per share does not assume the conversion of the Company's outstanding preferred shares since their exercise would result in a decrease in loss per share.

Diluted loss per share for the year ended 31 December 2018 equals basic loss per share as the exercise of the outstanding share options would be anti-dilutive.

## 14 DIVIDENDS

The directors of the Company do not recommend any payment of dividends for the year ended 31 December 2018 (2017: Nil).

## 15 PROPERTY, PLANT AND EQUIPMENT

| | Plant and machinery HK$'000 | Leasehold improvement HK$'000 | Furniture, fixture and equipment HK$'000 | WIFI and connection equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2017 | 7,263 | 3,299 | 4,994 | 23,064 | — | 38,620 |
| Acquisition of a subsidiary | 118 | — | 700 | — | 552 | 1,370 |
| Additions | 417 | 10,212 | 6,644 | — | 1,445 | 18,718 |
| Disposals | — | — | (659) | — | — | (659) |
| Write-off | — | — | (466) | — | — | (466) |
| Exchange difference | 23 | 378 | 266 | 1,632 | 83 | 2,382 |
| At 31 December 2017 and 1 January 2018 | 7,821 | 13,889 | 11,479 | 24,696 | 2,080 | 59,965 |
| Additions | 3,305 | 903 | 5,456 | — | 1,468 | 11,132 |
| Disposals | (490) | — | (363) | — | — | (853) |
| Write-off | — | — | (76) | — | — | (76) |
| Exchange difference | (125) | (638) | (631) | (1,177) | (140) | (2,711) |
| At 31 December 2018 | 10,511 | 14,154 | 15,865 | 23,519 | 3,408 | 67,457 |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 January 2017 | 3,709 | 2,465 | 3,024 | 22,396 | — | 31,594 |
| Depreciation *(Note 8)* | 1,191 | 1,238 | 1,887 | 346 | 233 | 4,895 |
| Disposals | — | — | (10) | — | — | (10) |
| Write-off | — | — | (321) | — | — | (321) |
| Exchange differences | 2 | 38 | 39 | 1,598 | 8 | 1,685 |
| At 31 December 2017 and 1 January 2018 | 4,902 | 3,741 | 4,619 | 24,340 | 241 | 37,843 |
| Depreciation *(Note 8)* | 1,322 | 2,121 | 2,112 | 352 | 633 | 6,540 |
| Disposals | (490) | — | (285) | — | — | (775) |
| Write-off | — | — | (61) | — | — | (61) |
| Exchange differences | (15) | (149) | (398) | (1,173) | (34) | (1,769) |
| At 31 December 2018 | 5,719 | 5,713 | 5,987 | 23,519 | 840 | 41,778 |
| **Carrying amounts** | | | | | | |
| At 31 December 2018 | 4,792 | 8,441 | 9,878 | — | 2,568 | 25,679 |
| At 31 December 2017 | 2,919 | 10,148 | 6,860 | 356 | 1,839 | 22,122 |

## 15 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation expense, of which approximately HK$1,021,000 (2017: HK$1,213,000), HK$5,121,000 (2017: HK$3,682,000) and HK$398,000 (2017:nil) was charged to “cost of sales”, “administrative expenses” and “inventory” respectively, aggregated to a total depreciation expense of approximately HK$6,540,000 (2017: HK$4,895,000).

## 16 INTANGIBLE ASSETS

| | Goodwill<br>*HK$'000* | Other intangible asset<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| Cost | | | |
| At 1 January 2017 | 94,318 | 33,528 | 127,846 |
| Exchange differences | 5,718 | 2,521 | 8,239 |
| At 31 December 2017 and 1 January 2018 | 100,036 | 36,049 | 136,085 |
| Exchange differences | (6,011) | (2,650) | (8,661) |
| At 31 December 2018 | 94,025 | 33,399 | 127,424 |
| Amortisation | | | |
| At 1 January 2017 | — | 680 | 680 |
| Charge for the year *(Note 8)* | — | 6,986 | 6,986 |
| Exchange difference | — | 275 | 275 |
| At 31 December 2017 and 1 January 2018 | — | 7,941 | 7,941 |
| Charge for the year (Note 8) | — | 7,032 | 7,032 |
| Exchange difference | — | (936) | (936) |
| At 31 December 2018 | — | 14,037 | 14,037 |
| Carrying amount | | | |
| At 31 December 2018 | 94,025 | 19,362 | 113,387 |
| At 31 December 2017 | 100,036 | 28,108 | 128,144 |

## 16 INTANGIBLE ASSETS *(continued)*

Goodwill amounted to HK$18,266,000 arose from the acquisition of China Honest Enterprises Limited ("China Honest"). Goodwill was allocated to the sale of beauty products and provision of therapy services CGU (the "CGU 1"), which are operating segments.

On 23 November 2016, the Company entered into a sale and purchase agreement with Engineering Services International Holding Company Limited ("ESI Holdings"), to acquire the entire shares in Engineering Services Inc. ("ESI") at a cash consideration of HK$54,000,000. The acquisition was completed on 25 November 2016. Goodwill from such acquisition amounted to CAD13,187,000 (equivalent to approximately HK$75,777,000) has been allocated to the provision of engineering products and related services CGU (the "CGU 2"). Other intangible asset, arose from the acquisition of the ESI, represents the patents registered in the different countries.

Other intangible asset is amortised over the estimated useful life of 5 years. For the year ended 31 December 2018, amortisation of HK$7,032,000 (2017: HK$6,986,000) has been charged to "cost of sales" in the consolidated statement of comprehensive income.

**Impairment test of goodwill arising from the acquisition of China Honest**

Goodwill from the acquisition of China Honest has been allocated to CGU 1 for impairment testing. The recoverable amount of the CGU 1 is determined based on a value-in-use calculation which uses cash flow projection based on financial budgets approved by the directors of the Company covering a five-year period, and a pre-tax discount rate of 17.6% per annum (2017: 15.5% per annum).

Assumed growth rate is used to extrapolate the cash flows in the following years. The financial budgets are prepared based on a five-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of 2% (2017: 2%) per annum beyond the five-year period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors.

## 16 INTANGIBLE ASSETS *(continued)*

**Impairment test of goodwill arising from the acquisition of ESI**

Goodwill acquired through business combination of the acquisition of ESI has been allocated to the CGU 2 for impairment testing. The recoverable amount of the CGU 2 is determined based on a value-in-use calculation which uses cash flow projection based on financial budgets approved by the directors of the Company covering a ten-year period, and a pre-tax discount rate of 26.8% (2017: 23.3%) per annum.

Assumed growth rate is used to extrapolate the cash flows in the following years. The financial budgets are prepared based on a ten-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of 2% (2017: 2%) per annum beyond the ten-year period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors.

The directors assessed the recoverable amount of the CGU 1 and CGU 2 with reference to the valuations performed by Vigers Appraisal and Consulting Limited, an independent qualified professional valuer, and determined that no impairment loss is recognised for the years ended 31 December 2018 and 2017 as the recoverable amounts exceeds the carrying amounts.

The directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGUs to exceed the their recoverable amounts.

Other intangible asset arose from the acquisition of the ESI completed on 25 November 2016. It represents the patents registered in the different countries. This intangible asset is amortised over the estimated useful life of 5 years. For the year ended 31 December 2018, amortisation of HK$7,032,000 (2017: HK$6,986,000) has been charged to “cost of sales” in the consolidated statement of comprehensive income.

## 17 INVENTORIES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **7,140** | 2,076 |
| Work-in-progress | **3,096** | 2,365 |
| Finished goods | **18,664** | 1,474 |
| | **28,900** | 5,915 |

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK$16,154,000 (2017: approximately HK$17,895,000).

Certain inventories were obsolete that could not generate future economic benefits and provision for impairment of inventories of approximately HK$nil (2017: approximately HK$445,000) was recognised.

## 18 TRADE RECEIVABLES

The Group allows credit periods to customers ranging from 0 day to 120 days. At 31 December 2018, trade receivables of HK$13,536,000 (2017: HK$14,496,000) were neither past due nor impaired. These related to a number of independent customers for whom there was no relevant history of default. Trade receivables that are less than three months past due are not considered impaired except for customers which are in unexpected difficult economic situations.

The ageing analysis of trade receivables by past due date is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | **13,536** | 14,496 |
| 1 – 30 days | **—** | — |
| 31 – 60 days | **—** | — |
| 61 – 90 days | **—** | — |
| Over 90 days | **721** | 756 |
| | **14,257** | 15,252 |
| Less: Provision for impairment of trade receivables | **(721)** | (756) |
| Trade receivables, net | **13,536** | 14,496 |

The carrying amounts of the Group's trade receivables approximate their fair values.

The Group's approach of managing credit risk is disclosed in Note 3.

## 18 TRADE RECEIVABLES *(continued)*

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

| | 2018 *HK$'000* | 2017 *HK$'000* |
|---|---|---|
| HK$ | **6,769** | 4,534 |
| RMB | **6,767** | 9,962 |
| | **13,536** | 14,496 |

Movement in the provision for impairment of trade receivables for the Group is as follows:

| | 2018 *HK$'000* | 2017 *HK$'000* |
|---|---|---|
| At 1 January | **756** | 707 |
| Exchange difference | **(35)** | 49 |
| At 31 December | **721** | 756 |

## 19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Deposits | **3,609** | 2,523 |
| | **3,609** | 2,523 |
| **Current assets** | | |
| Deposits | **340** | 457 |
| Prepayments | **6,231** | 8,298 |
| Other receivables *(Note a)* | **246,192** | 245,966 |
| *Less:* Provision for impairment of other receivables | **(241,420)** | (241,420) |
| | **11,343** | 13,301 |
| | **14,952** | 15,824 |

## 19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

There is no movement of impairment of other receivables during the years ended 31 December 2018 and 2017.

Deposits, prepayments and other receivables are denominated in the following currencies:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **4,358** | 6,354 |
| RMB | **8,650** | 8,921 |
| CAD | **1,933** | 549 |
| USD | **11** | — |
| | **14,952** | 15,824 |

*Notes:*

(a) Included in the other receivables was a balance of HK$241,420,000 due from Blu Spa Group Limited, a former subsidiary. The balance was non-interest bearing, unsecured and repayable on demand. The subsidiary had not been consolidated since July 2011 due to lack of books and records and was subsequently disposed of at HK$1 on 19 December 2014 to Koffman Investment Limited, a company held by a former director of the Company. Full impairment had been made by 30 June 2014. During the year ended 31 December 2017, the Directors of the Company filed a claim against the related former auditors.

## 20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Financial assets at fair value through profit or loss | | |
| — Equity securities listed in Hong Kong, at fair value | **—** | 4,471 |
| — Wealth management products *(Note a)* | **—** | 93,156 |
| | **—** | 97,627 |

*Note:*

(a) The wealth management products represented investment in wealth management products through a security broker in the PRC. The returns on all of these wealth management products were not guaranteed, and therefore the Group designated them as financial assets designated at fair value through profit or loss. As at 31 December 2017, the carrying amount of wealth management products approximates their fair value. The fair values are based on the quoted expected returns and are within level 2 of the fair value hierarchy. As at 31 December 2018, all of the wealth management products have been disposed.

## 20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

Financial assets at fair value through profit or loss are denominated in the following currencies:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| HK$ | — | 4,471 |
| RMB | — | 93,156 |
| | — | 97,627 |

Movement in the financial assets at fair value through profit or loss is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Beginning of the year | 97,627 | 7,052 |
| Additions | 9,554 | 144,116 |
| Disposal | (107,946) | (56,485) |
| Fair value gain/(loss) through profit or loss *(Note 7)* | 856 | (346) |
| Exchange difference | (91) | 3,290 |
| End of the year | — | 97,627 |

## 21 CASH AND CASH EQUIVALENTS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Cash at bank and on hand | 43,604 | 80,434 |
| Restricted bank deposits: | | |
| Interest-bearing | 18,729 | 18,727 |
| | 62,333 | 99,161 |
| Maximum exposure to credit risk | 62,129 | 98,648 |

## 21 CASH AND CASH EQUIVALENTS *(continued)*

The bank balances are deposited with creditworthy banks with no recent history of default.

There is no concentration of credit risk with respect to bank balances, as the Group has placed deposits with a number of banks.

Restricted bank deposits were deposits held at bank in respect of credit card and instalment sales arrangement from its sale of beauty products and provision of therapy services business for varying periods of between one month to three months and earn interest at rates ranging from 0.13% to 0.40% per annum (2017: 0.05% to 0.60% per annum).

Cash and cash equivalents are denominated in the following currencies:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **45,181** | 82,479 |
| RMB | **16,042** | 4,365 |
| USD | **88** | 11,423 |
| CAD | **1,022** | 894 |
| | **62,333** | 99,161 |

At 31 December 2018, approximately HK$15,814,000 (2017: HK$4,069,000) of the Group's cash and cash equivalents placed with banks in Mainland China were denominated in Renminbi, which is subject to foreign exchange control regulations of Mainland China.

## 22 SHARE CAPITAL

| | **Number of shares** | **Amount** |
|---|---|---|
| | *'000* | *HK$'000* |
| Ordinary shares of HK$0.10 each (2017: HK$0.10 each) | | |
| Authorised: | | |
| At 31 December 2017, at 1 January 2018 and at 31 December 2018 | 4,950,000 | 495,000 |
| Issued and fully paid: | | |
| At 1 January 2017 | 455,220 | 45,522 |
| Placement of new shares *(Note c)* | 21,000 | 2,100 |
| At 31 December 2017 and at 1 January 2018 | 476,220 | 47,622 |
| Redemption of preferred shares *(Note d)* | 30,000 | 3,000 |
| At 31 December 2018 | 506,220 | 50,622 |

## 22 SHARE CAPITAL *(continued)*

| | Number of shares '000 | Amount HK$'000 |
|---|---|---|
| Preferred shares of HK$0.10 each (2017: HK$0.10 each) | | |
| Authorised: | | |
| At 31 December 2017, at 1 January 2018 and at 31 December 2018 | 50,000 | 5,000 |
| Issued and fully paid: | | |
| At 31 December 2017 and at 1 January 2018 | 30,000 | 3,000 |
| Redemption of preferred shares *(Note d)* | (30,000) | (3,000) |
| At 31 December 2018 | — | — |

*Notes:*

(a) On 17 February 2015, the Company and certain subscribers ("Subscribers") entered into a subscription agreement ("Subscription Agreement"), pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 375,000,000 subscription shares ("Subscription Share(s)"), comprising 345,000,000 new ordinary shares and 30,000,000 new preferred shares ("Preferred Shares") at an issue price of HK$0.4 per Subscription Share (the "Subscription"). The aggregate gross subscription price amounts to approximately HK$150,000,000.

As one of the conditions precedent to the Subscription Agreement, the Company has reclassified and redesignated the existing shares of the Company of HK$0.1 each in the authorised share capital of the Company into 4,950,000,000 ordinary shares of HK$0.1 each and 50,000,000 preferred shares of HK$0.1 each.

The Subscription was completed on 6 November 2015, pursuant to the special mandate obtained at the special general meeting of the Company held on 30 October 2015 and according to the terms of the Subscription Agreement, 345,000,000 new ordinary shares have been duly allotted and issued as fully paid to the Subscribers and 30,000,000 Preferred Shares have been duly allotted and issued as fully paid to the Subscribers.

The total net proceeds of HK$135,958,000 were intended to be used for (i) raise a substantial amount of additional funds, which provides the Group with the financial flexibility necessary for future business development in the provision of in-flight WLAN and WIFI engineering and service business in parallel to its existing business; (ii) improve its financial position and liquidity; and (iii) leverage the expertise and business network of Mr. Cai Zhaoyang to take advantage of the expected strong growth in the avionic engineering and service business sector in the PRC.

Each preferred share is convertible into one ordinary share (subject to adjustment) by the preferred shareholder serving the conversion notice to the Company within the conversion period, without the payment of any additional consideration after the Preferred Shares have been fully paid according to the terms set out in the Subscription Agreement.

The holders of the Preferred Shares are not entitled to attend or vote at any general meeting of the Company and none of the Preferred Shares shall receive any dividend out of the funds of the Company available for distribution.

(b) On 14 December 2016, 35,417,000 new ordinary shares of HK$0.1 each were placed at a price of HK$4.8 per ordinary share by way of placement of new shares under general mandate, raising HK$168,300,000 (net of proceeds), of which HK$46,300,000 was intended to be used to settle the shareholders' loan due by ESI, and approximately HK$121,400,000 was intended to use as general working capital of the Group.

## 22 SHARE CAPITAL *(continued)*

*Notes: (continued)*

(c) On 4 August 2017, 21,000,000 new ordinary shares of HK$0.1 each were placed at a price of HK$6.25 per ordinary share by way of placement of new shares under general mandate, raising HK$130,000,000 (net of proceeds), being intended to use as general working capital of the Group.

(d) On 11 October 2018, 30,000,000 new ordinary shares of HK$0.1 each were converted at a price of HK$0.4 per ordinary share from the Preferred Shares. Pursuant to the terms of the Preferred Shares, 30,000,000 ordinary shares were allotted and issued by the Company to Tai Dong on 11 October 2018, and after such conversion, the Company has no more Preferred Shares in issue.

## 23 TRADE PAYABLES

As at 31 December 2018, the ageing analysis of trade payables by invoice date is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **4,836** | 821 |
| | **4,836** | 821 |

The carrying amounts of the Group's trade payables approximate their fair values.

The carrying amounts of the Group's trade payables balances are denominated in the following currencies:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **1,636** | 350 |
| RMB | **283** | 471 |
| CAD | **30** | — |
| USD | **2,887** | — |
| | **4,836** | 821 |

## 24 ACCRUALS AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accruals | **14,715** | 10,626 |
| Other payables | **14,924** | 14,525 |
| | **29,639** | 25,151 |

## 24 ACCRUALS AND OTHER PAYABLES *(continued)*

The carrying amounts of the Group's accruals and other payables approximate their fair values.

The carrying amounts of the Group's accruals and other payables balances are denominated in the following currencies:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **5,059** | 4,711 |
| RMB | **22,888** | 19,283 |
| CAD | **1,338** | 1,157 |
| USD | **354** | — |
| | **29,639** | 25,151 |

## 25 OTHER BORROWINGS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-interest bearing other borrowings | **53** | 1,568 |

Carrying amount repayable:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year or on demand | **53** | 1,568 |

At 31 December 2018 and 31 December 2017, the non-interest bearing other borrowings were unsecured and repayable within one year.

The carrying amounts of the Group's other borrowings are denominated in HK$.

## 26 CONTRACT LIABILITIES

The movement of contract liabilities are as follows:

| | *HK$'000* |
|---|---|
| At 1 January 2017 | 26,143 |
| Sales contracts entered into during the year *(Note a)* | 46,152 |
| Revenue recognised upon the provision of services *(Note b)* | (38,566) |
| Revenue recognised upon expiry of prepaid treatment packages *(Note c)* | (3,564) |
| Refunds of treatment packages *(Note d)* | (135) |
| At 31 December 2017 and at 1 January 2018 | 30,030 |
| Sales contracts entered into during the year *(Note a)* | 50,350 |
| Revenue recognised upon the provision of services *(Note b)* | (44,841) |
| Revenue recognised upon expiry of prepaid treatment packages *(Note c)* | (4,321) |
| Refunds of treatment packages *(Note d)* | (69) |
| At 31 December 2018 | 31,149 |

*Notes:*

(a) The amounts represent receipts from provision of therapy services to clients during the year which were to be settled via credit cards, Electronic Payment System, cash and instalment payment arrangement.

(b) The amounts represent revenue recognised in the consolidated statement of comprehensive income as a result of therapy services rendered to clients during the years ended 31 December 2018 and 2017.

(c) The amounts represent revenue recognised in consolidated statement of comprehensive income for prepaid service packages expired in accordance with the contractual service periods stipulated in the respective sale contracts, which last for 3 months to 2 years from the invoice date of the sale contracts.

(d) The amounts represent refunds of treatment packages as a result of certain clients' claims for the years ended 31 December 2018 and 2017 in relation to treatment outcome assessed with reference to individual physical conditions and treatment progress on a case-by-case basis.

## 27 DEFERRED TAXATION

The followings are the deferred tax liabilities recognised and movements thereon:

| | Recognition of other intangible assets | Unremitted earnings of subsidiaries in the PRC | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2017 | 8,523 | 29 | 8,552 |
| (Credit)/charge to profit or loss *(Note 12)* | (1,851) | 59 | (1,792) |
| Exchange difference | 776 | 6 | 782 |
| At 31 December 2017 and at 1 January 2018 | 7,448 | 94 | 7,542 |
| Credit to profit or loss *(Note 12)* | (1,864) | (62) | (1,926) |
| Exchange difference | (454) | (3) | (457) |
| At 31 December 2018 | 5,130 | 29 | 5,159 |

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$72,896,000 (2017: HK$51,829,000) in respect of losses amounting to HK$322,773,000 (2017: HK$210,921,000) that can be carried forward against future taxable income, of which HK$182,999,000 and HK$103,836,000 (2017: HK$117,629,000 and HK$70,285,000) will expire in five years and twenty years respectively. The remaining amount has no expiry date.

The Group is subject to withholding tax on distribution of profits generated from the Group's foreign-invested enterprises in the PRC. As one of the Group's foreign-invested enterprises is directly and wholly owned by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of its respective withholding tax. In respect of the entity that is not wholly owned by a Hong Kong incorporated subsidiary, a rate of 10% is applicable to the calculation of its respective withholding tax.

## 28 SHARE-BASED PAYMENTS

Under the share option scheme which was granted on 3 January 2017 (the "Grant Date"), the exercise price of the granted options is equal to HK$8.90. Options are conditional on completing ranging from one to four years of services (the "Vesting Period"). The options are exercisable within five years from the Grant Date and are expiring on 2 January 2022 (both days inclusive).

Movements of the share options under the share option scheme during the year ended 31 December 2018 are as follows:

| Grantee | Date of Grant | Exercise price HK$ | Exercise period | As at 1 January 2018 | Granted during the year | Exercised during the year | Cancelled during the year | Lapsed during the year | As at 31 December 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Employees of the Group | 3 January 2017 | 8.90 | 3 January 2018 to 2 January 2022 | 7,383,000 | — | — | (1,651,000) | — | 5,732,000 |
| Total | | | | 7,383,000 | — | — | (1,651,000) | — | 5,732,000 |

The share options granted to the employees of the Group shall be vested in four equal tranches. The vesting periods of the share options are between the date of grant and the dates of commencement of exercise periods. The vesting periods and exercise periods of the share options are as follows:

| Share options | Vesting period | Exercise period |
|---|---|---|
| 1,870,000 share options | 3 January 2017 to 2 January 2018 | 3 January 2018 to 2 January 2022 |
| 1,870,000 share options | 3 January 2017 to 2 January 2019 | 3 January 2019 to 2 January 2022 |
| 1,870,000 share options | 3 January 2017 to 2 January 2020 | 3 January 2020 to 2 January 2022 |
| 1,870,000 share options | 3 January 2017 to 2 January 2021 | 3 January 2021 to 2 January 2022 |

The Company has used the Binomial Option Pricing Model for assessing the fair value of the share options granted. According to the Binomial Option Pricing Model, the fair value of the options granted during the year ended 31 December 2018 measured as at the date of grant of 3 January 2017 was approximately in a range of HK$3.3730 to HK$3.8671 for each of the four tranches at its closing price at HK$8.90 per share, taking into account various factors, variables and assumptions which include the following:

(i) the risk-free interest rate used was 1.592%;

(ii) the expected volatility was about 49%; and

(iii) the expected annual dividend yield of 0%.

The expense for share options granted to the employees of HK$7,552,000 is recognised as "employee benefit expenses" in the consolidated statement of comprehensive income.

## 29 STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVES OF THE COMPANY

### (a) Statement of financial position of the Company

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | **—** | 1 |
| Interests in subsidiaries | **343,539** | 327,106 |
| | **343,539** | 327,107 |
| Current assets | | |
| Deposits, prepayments and other receivables | **236** | 258 |
| Cash and cash equivalents | **2,075** | 33,145 |
| | **2,311** | 33,403 |
| Total assets | **345,850** | 360,510 |
| EQUITY | | |
| Capital and reserves | | |
| Share capital — Ordinary shares | **50,622** | 47,622 |
| Share capital — Preferred shares | **—** | 3,000 |
| Reserves | **292,451** | 307,501 |
| Total equity | **343,073** | 358,123 |
| LIABILITIES | | |
| Current liabilities | | |
| Accruals and other payables | **2,777** | 2,387 |
| Total liabilities | **2,777** | 2,387 |
| Total equity and liabilities | **345,850** | 360,510 |
| Net current (liabilities)/assets | **(466)** | 31,016 |
| Total assets less current liabilities | **343,073** | 358,123 |

The statement of financial position of the Company was approved by the Board of Directors on 26 March 2019 and was signed on its behalf.

**Su Zhituan**
*Chairman, Director*

**Chen Min**
*Director*

## 29 STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVES OF THE COMPANY *(continued)*

### (b) Movement of reserves of the Company

| | Share premium *HK$'000* | Contributed surplus *HK$'000* | Accumulated losses *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| At 1 January 2017 | 359,013 | 27,141 | (195,464) | 190,690 |
| Loss and total comprehensive loss | — | — | (12,339) | (12,339) |
| Placement of new shares | 129,150 | — | — | 129,150 |
| At 31 December 2017 and at 1 January 2018 | 488,163 | 27,141 | (207,803) | 307,501 |
| Loss and total comprehensive loss | — | — | (15,050) | (15,050) |
| At 31 December 2018 | 488,163 | 27,141 | (222,853) | 292,451 |

## 30 COMMITMENTS

**Lease commitments**

***The Group as lessee***

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

| | **2018** ***HK$'000*** | 2017 *HK$'000* |
|---|---|---|
| Within one year | **10,242** | 4,880 |
| In the second to fifth year inclusive | **12,207** | 4,249 |
| | **22,449** | 9,129 |

Operating lease payments represent rentals paid or payable by the Group for its offices and retail shops premises. Leases are mainly negotiated for an average terms of two to five years.

Rentals are fixed over the guarantee rental or a sales level based on the higher of a minimum guarantee rentals or a sales level based rental. As the future sales could not be reliably determined, the relevant sales level based rental has not been included above and only the minimum lease commitments have been included in the above table. The Group does not have an option to purchase the leased premises at the expiry of the lease period.

## 31 RETIREMENT BENEFIT SCHEME

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of HK$1,500 per month, as appropriate, as defined in the Mandatory Provident Fund Ordinance, and thereafter contributions are voluntary.

The employees of the Group's subsidiaries in the PRC are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiaries are required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes operated by the government of the PRC is to make the specified contributions under the schemes.

The Group participates in a retirement scheme for qualified employees of its subsidiary in Canada. Under the retirement scheme, each of the Group (the employer) and its employees make monthly contributions to the scheme at 5% of the relevant income (comprising wages and salaries) at maximum. The monthly contributions of each of the employer and the employee are subject to a cap of CAD 2,594 (equivalent to approximately HK$16,000). The Group has no further obligations for post-retirement benefits beyond the contributions.

## 32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Reconciliation of loss before taxation to cash used in operations:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Loss before taxation | **(129,182)** | (99,415) |
| Adjustments for: | | |
| Amortisation of other intangible assets *(Note 16)* | **7,032** | 6,986 |
| Depreciation of property, plant and equipment *(Note 15)* | **6,540** | 4,895 |
| Gain on disposal of property, plant and equipment *(Note 7)* | **(114)** | (1,103) |
| Fair value (gain)/loss in respect of financial assets at fair value through profit or loss *(Note 7)* | **(856)** | 346 |
| Interest expenses *(Note 9)* | **15** | 6 |
| Interest income *(Note 6)* | **(862)** | (1,354) |
| Write-off of property, plant and equipment | **15** | 145 |
| Provision for impairment of inventories | **—** | 445 |
| Equity-settled share-based compensation *(Note 10)* | **7,552** | 13,694 |
| Operating cash flows before movements in working capital | **(109,860)** | (75,355) |
| Changes in working capital: | | |
| — Inventories | **(24,344)** | (3,558) |
| — Trade receivables | **619** | (9,832) |
| — Deposits, prepayments and other receivables | **437** | (6,500) |
| — Trade payables | **4,250** | (576) |
| — Accruals and other payables | **5,371** | (6,219) |
| — Contract liabilities | **1,119** | 3,887 |
| Cash used in operations | **(122,408)** | (98,153) |

## 32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

### (b) In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net book amount *(Note 15)* | **78** | 649 |
| Gain on disposal of property, plant and equipment *(Note 7)* | **114** | 1,103 |
| Proceeds from disposal of property, plant and equipment | **192** | 1,752 |

## 33 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Key management compensation

Key management personnel are the Company's executive directors. Details of compensation of key management personnel are disclosed in Note 11 to the consolidated financial statements.

## 34 PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries at the end of the reporting periods are set out as follows:

| **Name of subsidiary** | **Place of incorporation/ operation** | **Issued and paid up share capital** | **Effective interest held (%) 2018** | **Effective interest held (%) 2017** | **Principal activities** |
|---|---|---|---|---|---|
| Century Capital Holdings Limited | British Virgin Islands | US$1 | **100%** | 100% | Investment holding |
| Century Finance (BVI) Limited | British Virgin Islands | US$1 | **100%** | 100% | Investment holding |
| Century Finance Limited | Hong Kong | HK$1 | **100%** | 100% | Investment holding |
| China Honest Enterprises Limited ("China Honest") | Hong Kong | HK$100 | **51%** | 51% | Marketing development, product distribution and customer support services |
| EDS (Asia) Limited | Hong Kong | HK$1 | **100%** | 100% | Marketing development, product distribution and customer support services |
| EDS (China) Limited | Hong Kong | HK$1 | **100%** | 100% | Investment holding |
| EDS Distribution Limited | Hong Kong | HK$1 | **100%** | 100% | Marketing development, product distribution and customer support services |

## 34 PARTICULARS OF SUBSIDIARIES *(continued)*

| Name of subsidiary | Place of incorporation/ operation | Issued and paid up share capital | Effective interest held (%) 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| EDS International Holdings Limited | British Virgin Islands | US$1 | **100%** | 100% | Investment holding |
| China SuperRobotics Limited (Formerly known as China SkyNet Limited) | Hong Kong | HK$1 | **100%** | 100% | Investment holding and investment in securities |
| Engineering Services Inc. | Canada | CAD12 | **100%** | 100% | Provision of engineering products and related services |
| Donica Connectivity@ | The PRC | RMB50,000,000 | **100%** | 100% | Provision of engineering products and related services |
| Ace Force Holding Limited | British Virgin Islands | US$1 | **100%** | 100% | Investment holding |
| 安兆科技(深圳)有限公司@ | The PRC | HK$25,000,000 | **100%** | 100% | Provision of engineering products and related services |
| ESI Robotics Limited | Hong Kong | HK$1 | **100%** | 100% | Dormant |
| Star Run Investments Limited | British Virgin Islands | US$1 | **100%** | 100% | Investment holding |
| 深圳市安澤智能機器人有限公司 (Formerly known as 深圳市安澤智能工程有限公司) | The PRC | RMB50,000,000 | **99%** | 99% | Provision of engineering products and related services |
| 深圳市帝光實業有限公司 | The PRC | RMB500,000 | **99%** | 99% | Investment holding |
| 深圳市安卓智能工程有限公司 | The PRC | RMB30,000 | **99%** | — | Provision of engineering products and related services |
| New Best Finance Limited | British Virgin Islands | US$1 | **100%** | 100% | Investment holding |
| Renaissance Surgical Inc. | Canada | CAD1 | **100%** | 100% | Dormant |
| Tritop Management Limited | British Virgin Islands | US$1 | **100%** | 100% | Investment holding |

@ Wholly-owned foreign enterprise in the PRC

None of the subsidiaries had debt securities outstanding at the end of the reporting periods or at any time during the years.

## 34 PARTICULARS OF SUBSIDIARIES *(continued)*

**Material non-controlling interests**

As at 31 December 2018, the total non-controlling interests represent the following:

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| China Honest | **6,050** | 2,251 |
| Anzer | **(625)** | (1) |
| | **5,425** | 2,250 |

Set out below are the summarised financial information for China Honest that has non-controlling interests that are material to the Group.

***Summarised statement of financial position***

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| Current assets | **52,709** | 41,988 |
| Non-current assets | **4,852** | 4,993 |
| Current liabilities | **(45,214)** | (42,387) |
| Equity attributable to owners of the Company | **6,297** | 2,343 |
| Non-controlling interests | **6,050** | 2,251 |

## 34 PARTICULARS OF SUBSIDIARIES *(continued)*

**Material non-controlling interests** *(continued)*

***Summarised statement of comprehensive income***

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Revenue | 52,860 | 46,234 |
| Profit for the year | 10,753 | 3,965 |
| Profit attributable to owners of the Company | 5,484 | 2,022 |
| Profit attributable to the non-controlling interests | 5,269 | 1,943 |
| Profit for the year | 10,753 | 3,965 |
| Other comprehensive income attributable to owners of the Company | — | — |
| Other comprehensive income to the non-controlling interests | — | — |
| Other comprehensive income during the year | — | — |
| Total comprehensive income attributable to owners of the Company | 5,484 | 2,022 |
| Total comprehensive income to the non-controlling interests | 5,269 | 1,943 |
| Total comprehensive income | 10,753 | 3,965 |
| Dividend paid to non-controlling interests | (1,470) | — |

***Summarised cash flows***

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Net cash inflow from operating activities | 12,363 | 10,845 |
| Net cash outflow from investing activities | (1,084) | (197) |
| Net cash outflow from financing activities | (3,000) | — |
| Net cash inflow | 8,279 | 10,648 |

# FINANCIAL SUMMARY

| | For the twelve months ended 31 December | | | | For the six months ended 31 December |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Results** | | | | | |
| Revenue | **63,739** | 78,799 | 61,521 | 46,989 | 22,084 |
| Profit/(loss) for the year/period attributable to: | | | | | |
| – Owners of the Company | **(132,345)** | (99,059) | (44,946) | (42,086) | (48,939) |
| – Non-controlling interests | **4,639** | 1,948 | 1,198 | 2,409 | 1,896 |
| | **(127,706)** | (97,111) | (43,748) | (39,677) | (47,043) |

**Assets and liabilities**

| | As at 31 December | | | | As at 31 December |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **258,787** | 383,289 | 318,643 | 211,545 | 90,366 |
| Total liabilities | **(72,327)** | (65,472) | (58,288) | (71,368) | (41,310) |
| Non-controlling interests | **(5,425)** | (2,250) | (308) | (825) | (3,757) |
| Equity attributable to owners of the Company | **181,035** | 315,567 | 260,047 | 139,532 | 45,299 |