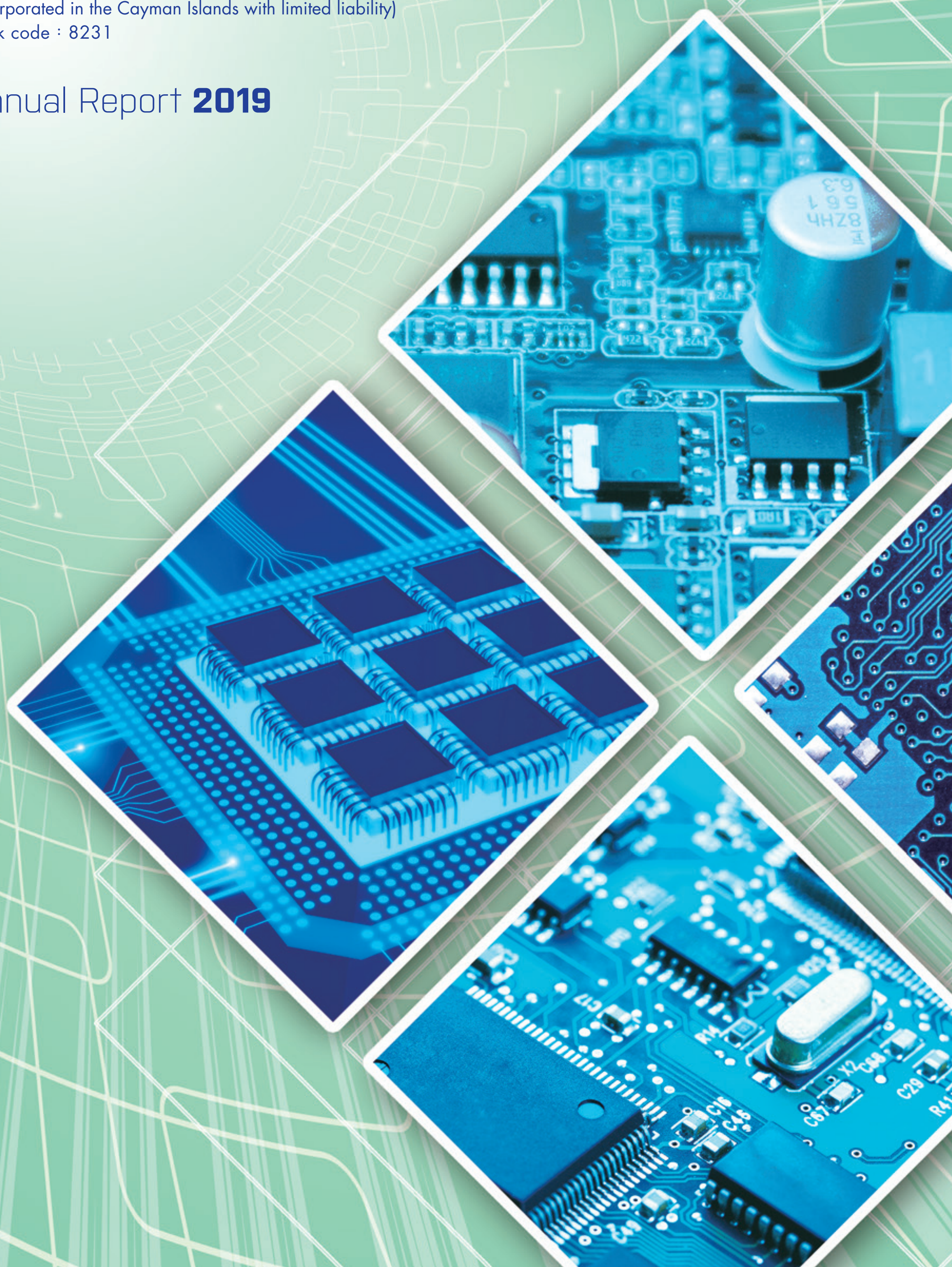
PFC Device Inc.
節能元件有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code：8231

Annual Report **2019**



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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai *(Chief Executive Officer)*

Non-executive Directors

Mr. Yung Kwok Kee, Billy *(Chairman)*
Mr. Tang Che Yin

Independent Non-executive Directors

Mr. Lam, Peter
Mr. Leung Man Chiu, Lawrence
Mr. Fan Yan Hok, Philip

AUDIT COMMITTEE

Mr. Leung Man Chiu, Lawrence *(Chairman)*
Mr. Fan Yan Hok, Philip
Mr. Yung Kwok Kee, Billy

REMUNERATION COMMITTEE

Mr. Fan Yan Hok, Philip *(Chairman)*
Mr. Lam, Peter
Mr. Yung Kwok Kee, Billy

NOMINATION COMMITTEE

Mr. Yung Kwok Kee, Billy *(Chairman)*
Mr. Fan Yan Hok, Philip
Mr. Lam, Peter

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

COMPANY SECRETARY

Ms. Lee Ka Man *ACIS*, *ACS (PE)*

REGISTERED OFFICE

PO Box 1350, Clifton House, 75 Fort Street,
Grand Cayman KY1-1108, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1/F, Shell Industrial Building, 12 Lee Chung Street,
Chai Wan, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54 Hopewell Centre, 183 Queen's Road East,
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai

COMPLIANCE OFFICER

Mr. Chow Kai Chiu, David

AUDITOR

BDO Limited
Certified Public Accountants

COMPANY'S WEBSITE

www.pfc-device.com

STOCK CODE

8231

On behalf of the Board of Directors (the "Board"), I am pleased to present the audited financial results of the Group for the year 2019.

OVERVIEW

The Group is principally engaged in the design, manufacturing and sales of power discrete semiconductors under its own brand. Its principal applications and core segments include (1) power supply and adapters for TV, PC, laptop, etc. (2) chargers for mobile phone, tablet, portable electronics, etc. and (3) industrial and automotive applications.

In 2019, trade environment presented significant challenges for the global semiconductor industry. The industry downturn triggered by a weaker pricing environment combined with the US-China trade war led to lower growth in major applications, including smartphone, servers and PCs. Excess capacity and oversupply in the semiconductor industry started in the second half of 2018 and lasted throughout 2019.

Amid slower industry conditions, the Group's revenue and gross profit in 2019 was approximately US$18 million and US$2.6 million respectively, representing a decrease of 23.1% and 39.5% over the prior year period. Loss attributable to owners of the Company was US$1.4 million for 2019. Notwithstanding the slower momentum, we maintain a positive net cash generated from our operating activities in the year.

Looking at the year ahead, difficult business conditions and macroeconomic uncertainties still persist. We will continue to deploy resources to build on our products portfolio so as to enhance our competitive strength.

APPRECIATION

On behalf of the Board, I would like to express our gratitude to our staff, and the support from all of our shareholders and stakeholders.

On behalf of the Board

Mr. Yung Kwok Kee, Billy
Chairman

Hong Kong, 19 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design, manufacturing and sales of power discrete semiconductors under its own brand.

2019 was a tough year for the semiconductor industry. Due to the cyclical downturn in the global semiconductor industry and the impact of US-China trade war, the Group experienced a significant decline in revenue. The Group's principally derived its revenue from sales of power discrete semiconductors which dropped by 18.2% to US$17.5 million during the year (2018: US$21.4 million). The Directors recognised that the trading of raw materials was exposed to more challenging operating conditions in the current and forthcoming years. Given this environment, the Group discontinued the raw materials trading business beginning in the third quarter of 2019 and reinforced the focus on the sales of power discrete semiconductors based on the semiconductor packaging technology we have cultivated thus far. Trading of raw materials in 2019 declined by 73.7% to US$0.5 million (2018: US$1.9 million).

The Group's production capacity utilization rate was lower than normal due to the decline in demand from key electronic products, including smartphones and computers. As such, higher manufacturing overhead per unit led to decline in gross profits and gross profit margins.

To cope with the challenging market situation, the Group had focused on reducing its excess inventory level to a healthy portfolio and implemented strict control by monitoring customers need before placing purchases orders. The Group's management also implemented a range of cost and expenses control measures, in particular, staff costs.

In 2019, the Group has further expanded the MOSFET product portfolio with additional 20 new products, with production ramp up in the first half of 2020.

BUSINESS OUTLOOK

The suppliers of the Group are principally located across China while the majority of our customers' end products are exported to the US and Europe.

Due to the coronavirus outbreak this year, the extended Chinese New Year holidays and lockdown of many Chinese cities have resulted in output reduction in our Shunde factory for the first two months of Q1 as compared to similar period season in prior years. While we are able to successfully ramp up production to over 80% in March, drop in revenue is forecasted for Q1 due to limited production output in the period. Production capacity shall recover in April.

The continual spread of the virus and the recent lockdown across Europe and the US will most likely reduce consumer sentiments for electronics in Q2 and possibility into the second half of 2020. Although we expect production capacity recovery in Q2, we forecast weak demand due to the lockdown in Europe and the US. Revenue in Q2 and Q3 will be impacted if the lockdown in Europe and US is prolonged.

The Directors consider the business environment to remain challenging. In addressing the adverse impact resulted from any uncertainties on dampening the industry recovery pace, we will endeavor to identify areas for cost savings and devote resources to enhance productivity and operating efficiencies.

PRINCIPAL RISK AND UNCERTAINTIES

The principal risks and uncertainties in implementing the Group's business strategies include the followings:

1. Customer base

Our five largest customers accounted for a significant portion of our revenue. If any of the key customer reduces, delays or cancels its orders to the Group, our profit level may be adversely affected.

2. Supply of materials

We are dependent on the continuous supply of epitaxy and wafer foundry capacities from a few suppliers. Any shortage or delay in the supply of the necessary materials and foundry capacities, or any significant change in these costs in which the Group may not be able to shift the costs to its customers, resulting in adverse impact on our business and results of operation.

3. Research and development

The Group maintains its own research and development team, primarily focusing on improvement of product performance, new product models and technology improvement. Failure to launch new products to the market to meet customers' demand may result in adverse impact on the Group competitive edge.

4. Packaging production capacity

The Group relies on stable operation of its production facilities and adequate labour force for production. Any equipment failure, industrial accidents and other catastrophic events, which could have a material adverse effect on our business and results of operations.

In addressing these risks and uncertainties, the Group continues to implement its strategies to expand its products portfolio and strives to explore potential customers. The Group makes great effort to establish good relationship with our suppliers. The production facilities of the Group are subject to regular inspection, maintenance and part replacement, as well as appropriate training is provided to all operating and administrative staff on safety matters.

FINANCIAL REVIEW

Revenue and Operating Results

Revenue from the Group's operations for the year ended 31 December 2019 amounted to approximately US$18 million, representing a decrease of US$5.4 million or 23.1% compared to US$23.4 million for 2018. Such decrease was primarily attributable to the decrease in sales volume of the power discrete semiconductors and trading of raw materials.

The Group's gross profit for the year ended 31 December 2019 amounted to US$2.6 million, representing a decrease of US$1.7 million as compared to US$4.3 million for 2018. The gross profit margin for the year ended 31 December 2019 was 14.4%, representing a decrease of 3.8 percentage points as compared to 18.2% for 2018. The decrease in the Group's gross profit margin was mainly due to higher manufacturing overhead per unit as a result of the drop in sales volume and additional inventories write down.

Loss attributable to the owners of the Company for the year ended 31 December 2019 was US$1.4 million as compared with a loss of US$1.1 million in 2018. This was mainly attributable to the decrease in gross profit mentioned above, offset by the decrease in administrative expenses by adoption of various cost control measures in staff costs.

Liquidity, Financial Resources and Capital Structure

The Group was able to maintain a sound financial position with its financial resources and liquidity position consistently monitored and put in place in a healthy state throughout the period under review. Given the current economic situation, the Group would constantly re-evaluate its operational and investment status with a view to improving its cash flow and minimising its financial risks.

As at 31 December 2019, the Group had a total cash and bank balances of approximately US$6.8 million (2018: US$4.3 million) which is mainly denominated in United States dollars.

During the year, the bank borrowings of the Group are bearing interest at floating interest rates. Interest coverage, calculated as operating profit divided by total interest expenses net of interest income, stood at negative 41 times as at 31 December 2019 (2018: N/A).

The capital of the Group comprises only ordinary shares. As at 31 December 2019, there were 1,618,032,277 ordinary shares in issue. There has been no change in the Company's capital structure since 7 October 2016 (the "Listing Date").

Foreign Exchange Exposure

Operations of the Group are mainly conducted in United States dollars, Taiwan dollars and Renminbi. It is the Group's treasury policy to closely monitor its foreign exchange position and manage its foreign currency exposure whenever its financial impact is material to the Group. During the year ended 31 December 2019, the Group did not engage in any hedging activities.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year ended 31 December 2019. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Gearing Ratio

The Group targets to maintain a gearing ratio to be in line with expected changes in economic and financial conditions, expressed as a percentage of total bank borrowings net of cash and bank balances to total equity of the Group. The gearing ratio of the Group as at 31 December 2019 was nil (31 December 2018: nil) as the Group had net cash balances at the respective year end.

Capital Commitments

As at 31 December 2019, the Group had total capital commitments of approximately US$0.05 million (2018: US$0.4 million) for the acquisition of property, plant and equipment.

Capital Expenditure

The Group had capital expenditures totalling US$0.3 million during the year ended 31 December 2019 (2018: US$2.8 million).

Contingent Liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: nil).

Segment Information

Segment information for the Group is presented as disclosed on note 6 to the consolidated financial statements.

Significant Investments/Material Acquisitions and Disposal

During the year ended 31 December 2019, the Group had not made any significant investments or material acquisitions and disposal of subsidiaries.

Employees and Remuneration Policies

As at 31 December 2019, the Group had 129 employees (2018: 165). The Group's total employee benefit expenses for the year ended 31 December 2019 amounted to approximately US$3.4 million (2018: US$4.2 million). The pay levels of these employees are commensurate with their responsibilities, performance and market condition. In addition, share option schemes are put in place as a longer term incentive to align interests of employees to those of shareholders.

DIRECTORS

Executive Directors

Mr. Chow Kai Chiu, David (周啟超), aged 55, Chartered Financial Analyst, joined the Group in 2006 and was appointed as an Executive Director of the Company on 21 March 2016. Mr. Chow received his Bachelor degree of Applied Science in Computer Engineering and his Master's degree in Business Administration from the University of Waterloo and York University, Canada. He has previously held positions at First Marathon Securities Limited in Canada, Asian Capital Partners, and HSBC Private Equity (Asia) Limited in the corporate finance and investment management field. He is also a director of all subsidiaries of the Group and the Deputy Chief Executive of Shell Electric Holdings Limited.

Mr. Hong James Man-fai (洪文輝), aged 47, was appointed as an Executive Director of the Company on 21 March 2016. Mr. Hong is the Chief Executive Officer of the Group and primarily responsible for the overall management and operations and the implementation of the strategic planning of the Group. Mr. Hong is also a director of a number of the subsidiaries of the Group.

Mr. Hong obtained a Bachelor degree in Electrical Engineering and Computer Science from University of California, Berkeley, USA and a Master of Business Administration from University of Southern California, USA. Mr. Hong has more than 20 years of experience in the manufacturing and retail of semiconductor products with extensive knowledge in business development of semiconductor product. Prior to joining the Group, Mr. Hong was employed by Advanced Micro Devices, Inc., Pittiglio Rabin Todd & McGrath, APD Semiconductor, Inc., Diodes Incorporated, and Skyworks Solutions, Inc.

Non-executive Directors

Mr. Yung Kwok Kee, Billy (翁國基), aged 66, was appointed as a Director of the Company on 2 March 2016 and was re-designated as a non-executive Director and Chairman of the Board of the Company on 19 September 2016. Mr. Yung is primarily responsible for the strategic direction and overall management of the strategic planning of the Group. Mr. Yung is the chairman of the Nomination Committee and a member of both the Audit Committee and the Remuneration Committee of the Company. Mr. Yung is also a director of a number of the subsidiaries of the Group.

Mr. Yung received a bachelor degree in Electrical Engineering from University of Washington and a master degree in Industrial Engineering from Stanford University. Mr. Yung has over 40 years of experience in managing manufacturing, retailing, transportation, semi-conductor, computer hardware and software business in China, Hong Kong and USA. Prior to founding the Group, Mr. Yung was the executive director of Shell Electric Mfg. (Holdings) Co. Ltd. from 1973 to 2010, now known as China Overseas Grand Oceans Group Ltd., which shares are listed on the Main Board of the Stock Exchange (stock code: 0081). Since 27 February 2010, Mr. Yung has become a non-executive director and vice chairman of the Board of that company. Mr. Yung has been the chairman and the chief executive of Shell Electric Holdings Limited since 2009. Mr. Yung is currently the Permanent Honorary President of Friends of Hong Kong Association Ltd., the Honorary President of Shun Tak Fraternal Association, a member of Senior Police Call Central Advisory Board and was awarded the Honorary Citizen of the City of Guangzhou and the Honorary Citizen of the City of Foshan.

Mr. Tang Che Yin (鄧自然), aged 64, was appointed as a Director of the Company on 21 March 2016 and was re-designated as a non-executive Director of the Company on 19 September 2016. Mr. Tang is primarily responsible for assisting the chairman in the overall management of the strategic planning of the Group and overseeing the human resource and operation of the Group's China manufacturing operation. Mr. Tang is also a director of Guangdong PFC Device Limited.

Mr. Tang obtained his Master degree of Computer Science from the University of Manchester of the United Kingdom, United Kingdom, in December 1980 and his Master degree of Business Administration from the Chinese University of Hong Kong, Hong Kong, in December 1987. He obtained the qualification of a Chartered Engineer and also membership of the Council of Engineer in the United Kingdom in February 1987. He also obtained the qualification of a Chartered Electrical Engineer in March 1991 and the membership of the Institution of Electrical Engineers in April 1986.

Independent non-executive Directors

Mr. Lam, Peter (林晉光), aged 67, was appointed as an independent non-executive Director of the Company on 19 September 2016. He is also a member of both the Remuneration Committee and the Nomination Committee of the Company. Mr. Lam received a Bachelor degree in Civil Engineering from Lehigh University and a Master degree in Construction Management from Stanford University. He is the President of Lam Construction Group Limited. He has over 30 years of experience in construction, project management and real estate development.

Mr. Leung Man Chiu, Lawrence (梁文釗), aged 71, was appointed as an independent non-executive Director of the Company on 19 September 2016. He is also the chairman of the Audit Committee of the Company. He is a fellow member of the Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. He has been in public practice for over 46 years and is now a partner of Tang and Fok, certified public accountants. Mr. Leung is currently a non-executive director of World Super Holdings Limited, whose shares are listed on the GEM of the Stock Exchange (stock code: 8612). He is also an independent non-executive director of Safety Godown Company Limited (stock code: 237) and Pak Fah Yeow International Limited (stock code: 239), all companies whose shares are listed on the Main Board of the Stock Exchange.

Mr. Fan Yan Hok, Philip (范仁鶴), aged 70, was appointed as an independent non-executive Director of the Company on 19 September 2016. He is also the chairman of the Remuneration Committee and a member of both the Audit Committee and the Nomination Committee of the Company. Mr. Fan is also an independent non-executive director of the following Hong Kong listed public companies, namely China Everbright International Ltd., Hysan Development Company Limited, First Pacific Company Limited, China Aircraft Leasing Group Holdings Limited.

Senior management

Mr. Liu Hsin-Hsien (劉信賢), aged 50, is the sales vice president of PFC Device Corporation (Taiwan Branch) (the "PFC Device (TW)"). He joined the Group on 2 November 2014 and he is primarily responsible for the customer development and sales management.

Mr. Liu obtained a Bachelor degree of Material Engineering from National Taipei University of Technology, Taiwan. Mr. Liu has over 21 years of experience in the semiconductor industry. Mr. Liu previously worked in Avnet Asia Pte Ltd Taiwan Branch (Singapore), Arrow Electronics, KC Uppertech Co., Ltd., Immense Advance Technology Corp., Diodes Incorporated., and Chip Integration Technology Corporation.

Pursuant to Rule 18.44(2) of the GEM Listing Rules, the Board is pleased to present hereby the corporate governance report of the Company for the year ended 31 December 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieving high standards of corporate governance. The Directors of the Company believe that sound and reasonable corporate governance practices are essential for the continuing growth of the Group and for safeguarding and maximising shareholders' interests.

Throughout the year ended 31 December 2019, the Company had complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules.

BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "Board Committees"). Further details of the Board Committees are set out below in this annual report.

The Board is responsible for performing the corporate governance duties set out in code provision D.3.1 of the CG Code and the duties of the Board in respect of the corporate governance are as follows:

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;

2. to review and monitor the training and continuous professional development of the Directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

5. to review the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

The Board has performed the above duties during the year ended 31 December 2019.

Composition of the Board

During the year ended 31 December 2019 and up to the date of this annual report, the Board comprises of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors (the "INED"). In particular, the composition of the Board is set out as follows:

Executive Directors
Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai *(Chief Executive Officer)*

Non-executive Directors
Mr. Yung Kwok Kee, Billy *(Chairman)*
Mr. Tang Che Yin

Independent non-executive Directors
Mr. Lam, Peter
Mr. Leung Man Chiu, Lawrence
Mr. Fan Yan Hok, Philip

In compliance with rules 5.05(1) and 5.05A of the GEM Listing Rules, the Board consisted of three INEDs during the reporting period, with at least one INED processing appropriate professional qualifications or accounting or related financial management expertise. During the reporting period, the number of INEDs represents more than one-third of the Board as required under the GEM Listing Rules. As such, there is a strong independent element in the Board to provide independent judgement.

In accordance with code provision A.4.1 of the Code, the Company has entered into a letter of appointment with each of the non-executive Directors and the INEDs under which each INED is appointed for a specific term. The commencement date of the appointment is 19 September 2016 and each of the letter of appointment carries a fixed term of three years initially commencing from 7 October 2016 (the “Listing Date”) and has been renewed for another term of three years commencing on 7 October 2019 unless terminated by either party in accordance with the terms thereof.

Pursuant to Article 108 of the Articles of Association of the Company (the “Articles”), one-third of the Directors shall retire from office by rotation at each annual general meeting and every Director shall be subject to retirement by rotation at least once every three years. However, a retiring Director shall be eligible for re-election.

Specific enquiry has been made by the Company to each of the INEDs to confirm their independence pursuant to rule 5.09 of the GEM Listing Rules. In this connection, the Company has received positive confirmations from all of the three INEDs. Based on the confirmations received, the Company considers all the INEDs to be independent under the GEM Listing Rules.

Saved as disclosed in the section “Biographical Details of Directors and Senior Management” in this annual report, there is no financial, business, family or other material or relevant relationship among members of the Board and senior management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman is Mr. Yung Kwok Kee, Billy and the chief executive officer (the “CEO”) is Mr. Hong James Man-fai. The roles of the Chairman and the CEO are clearly defined and segregated to ensure independence and proper checks and balances. The Chairman focuses on formulating business strategies and direction of the Company and has executive responsibilities, provides leadership for the Board and ensures proper and effective functioning of the Board in discharging its responsibilities. The CEO is accountable to the Board for the overall implementation of the Company’s strategies and the co-ordination of overall business operations.

BOARD AND GENERAL MEETINGS

For the year ended 31 December 2019, a total of seven (including four regular) board meetings and one annual general meeting (the “AGM”) of the Company were held. The attendance record of each Director at the board meeting is set out in the table below:

Name of Director	**Number of Attendance/ number of board meetings**	**Attendance of the AGM held on 14 May 2019**
Executive Directors		
Mr. Chow Kai Chiu, David	7/7	1/1
Mr. Hong James Man-fai	7/7	1/1
Non-executive Directors		
Mr. Yung Kwok Kee, Billy	7/7	1/1
Mr. Tang Che Yin	7/7	0/1
Independent non-executive Directors		
Mr. Lam, Peter	7/7	1/1
Mr. Leung Man Chiu, Lawrence	6/7	0/1
Mr. Fan Yan Hok, Philip	6/7	1/1

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors in respect of the shares of the Company (the "Code of Conduct"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct throughout the year ended 31 December 2019.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

Pursuant to the Code Provision A.6.5 under Appendix 15 of the GEM Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During the year, all Directors have participated in continuous professional development. Mr. Leung Man Chiu, Lawrence, Mr. Fan Yan Hok, Philip and Mr. Lam, Peter have attended seminars or conference. Mr. Yung Kwok Kee, Billy, Mr. Chow Kai Chiu, David, Mr. Hong James Man-fai and Mr. Tang Che Yin have read the materials relating to the economy or regulatory updates. The Directors had provided the Company with records on their participation.

BOARD DIVERSITY POLICY

Pursuant to the Code, the Board has adopted a board diversity policy (the "Policy"). The Company recognises and embraces the benefits of having a diverse Board. All Board appointments are made on merits and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of aspects, including (but not limited to) gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. High emphasis is placed on ensuring a balanced composition of skills, experience and background at the Board level. The Company also takes into consideration the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect in determining the optimal composition of the Board.

The Board will consider to set measurable objectives to implement the Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

NOMINATION POLICY

The nomination policy was approved and adopted by the board of directors of the Company by resolution passed on 13 November 2018. It sets out the criteria and procedures to be adopted when considering candidates to be appointed or re-appointed as directors of the Company.

The primary function of the Nomination Committee is to, *inter alia*, make recommendations to the Board for the appointment or re-appointment of directors of the Company. The Nomination Committee may also put forward candidates who are not nominated by Board members. The factors which would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate for Director include, inter alia, reputation for integrity, professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy, willingness to devote adequate time to discharge duties as Board member, diversity of the Board, and such other perspectives appropriate to the Company's business. The Nomination Committee shall make recommendations for the Board's consideration and approval.

The Nomination committee utilises various methods for identifying director candidates, including recommendations from Board members, management, as well as nomination by shareholders are evaluated by the Nomination Committee based upon the director qualifications. While director candidates will be evaluated on the same criteria through review of resume, personal interview and performance of background checks. The Nomination Committee retains the discretion to establish the relative weighting of such criteria, which may vary based on the composition, skill sets, age, gender and experiences of the collective Board rather than on the individual candidate for the purpose of diversity perspectives appropriate to the requirement of the Company's business.

BOARD COMMITTEES

The Board has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. All committees have been provided with sufficient resources and support from the Group to discharge their duties. The relevant terms of reference of each of the three committees can be found on the Group's website (www.pfc-device.com) and the website of the Stock Exchange.

AUDIT COMMITTEE

The Audit Committee was established on 19 September 2016 with written terms of reference in compliance with the Corporate Governance Code. It consists of two INEDs and one non-executive Director, namely Mr. Leung Man Chiu, Lawrence, Mr. Fan Yan Hok, Philip and Mr. Yung Kwok Kee, Billy. Mr. Leung Man Chiu, Lawrence currently serves as the chairman of the Audit Committee. He has appropriate professional qualifications and experience in accounting matters. The members of the Audit Committee shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he will cease to be a member of the Audit Committee automatically.

The Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.28 of the GEM Listing Rules. In addition, the majority of the Audit Committee members shall be INEDs.

With reference to the terms of reference, the primary responsibilities of the Audit Committee are, among others, the following (for complete terms of reference, please refer to the Group's website at www.pfc-device.com or the website of the Stock Exchange):

1. to make recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approve the remuneration and terms of engagement of the Company's external auditor;

2. to review and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

3. to monitor integrity of the Company's financial statements, annual report and accounts, half-year report and quarterly report and review significant financial reporting judgements contained in them;

4. to discuss the risk management and internal control systems with the Company's management to ensure that management has performed its duty to maintain the effectiveness of risk management and internal control systems;

5. to review the financial and accounting policies and practices of the Group;

6. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response;

7. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and

8. to report to the Board on that matters pursuant to the terms of reference of the Audit Committee and consider other topics as defined by the Board.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the reporting period and up to the date of this report.

The members of the Audit Committee should meet at least four times a year. During the year ended 31 December 2019, the Audit Committee meetings held four meetings and performed duties including reviewing the Group's annual report for the year ended 31 December 2018, the unaudited quarterly results for the three months ended 31 March 2019 and nine months ended 30 September 2019 and the interim report for the six months ended 30 June 2019.

The attendance records of the members of the Audit committee are summarized below:

	Number of Attendance/ number of meetings
Mr. Leung Man Chiu, Lawrence *(Chairman)*	3/4
Mr. Yung Kwok Kee, Billy	4/4
Mr. Fan Yan Hok, Philip	3/4

The Audit Committee held a meeting on 19 March 2020 and reviewed with the management the Group's financial statements for the year ended 31 December 2019. It also reviewed the internal control and risk management system and all connected transactions entered into by the Company and its subsidiaries during the financial year. The Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 December 2019 comply with the applicable accounting standards and the GEM Listing Rules. The Audit Committee recommended to the Board for its consideration the same and the re-appointment of BDO Limited as the Company's external independent auditor at the forthcoming AGM to be held on 11 May 2020.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 19 September 2016 with written terms of reference in compliance with the Corporate Governance Code. It consists of two INEDs and one non-executive Director, namely Mr. Fan Yan Hok, Philip, Mr. Lam, Peter and Mr. Yung Kwok Kee, Billy. Mr. Fan Yan Hok, Philip currently serves as the chairman of the Remuneration Committee.

With reference to the terms of reference of the Remuneration Committee, the primary responsibilities of the Remuneration Committee include, among other things, the following (for the complete terms of references, please refer to the Group's website at www.pfc-device.com or the website of the Stock Exchange):

1. to consult the chairman of the Board and/of chief executive about their remuneration proposals for other executive Directors;

2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

5. to make recommendations to the Board on the remuneration of non-executive Directors;

6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

9. to ensure that no Director or any of their associates is involved in deciding their own remuneration.

The members of the Remuneration Committee should meet at least once a year. During the year ended 31 December 2019, a meeting of the Remuneration Committee was held and has, inter alia, reviewed the remuneration packages for individual executive Directors and senior management and made recommendations to the Board.

The emoluments payable to the Directors depend on their respective contractual terms under the service contracts or the appointment letters (as the case may be), and as recommended by the Remuneration Committee. Details of the Directors' emoluments and remuneration payable to senior management are set out in note 14 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 19 September 2016 with written terms of reference in compliance with the Corporate Governance Code. It consists of one non-executive Director and two INEDs, namely Mr. Yung Kwok Kee, Billy, Mr. Lam, Peter, Mr. Fan Yan Hok, Philip. Mr. Yung Kwok Kee, Billy currently serves as the chairman of the Nomination Committee.

With reference to the terms of reference of the Nomination Committee, the primary responsibilities of the Nomination Committee include, among other things, the following (for the complete terms of reference, please refer to the Group's website at www.pfc-device.com or the website of the Stock Exchange):

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on proposed changes, if any, to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of INEDs; and

4. to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the Chairman and the chief executive.

The members of the Nomination Committee should meet at least once a year. During the year ended 31 December 2019, a meeting of the Nomination Committee was held and has, inter alia, reviewed the structure, size and composition of the Board, assessed the independence of the INEDs and considered the Directors to retire and re-appoint at the forthcoming annual general meeting.

AUDITOR'S REMUNERATION

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

For the year ended 31 December 2019, the remuneration paid or payable to the external auditor of the Company in respect to the audit services and non-audit services for the Group are as follows:

	2019
	US$'000
Annual audit	**81**
Non-audit services	**2**
	83

COMPANY SECRETARY

The Company engages an external service provider to provide secretarial services and has appointed Ms. Lee Ka Man as the company secretary of the Company on 9 November 2016. Ms. Lee is not an employee of our Group and Mr. Chow Kai Chiu, David, an executive Director, is the person whom Ms. Lee can contact for the purpose of code provision F.1.1 of the Code.

During the year ended 31 December 2019, Ms. Lee has undertaken not less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

COMPLIANCE OFFICER

Mr. Chow Kai Chiu, David, an executive Director, is the compliance officer of the Group. Please refer to the section "Biographical Details of Directors and Senior Management" for his biographical information.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard the assets of the Group and shareholder investments. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimizes the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board has periodically conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management functions. The Directors consider that the Group has implemented appropriate procedures for safeguarding the Group's assets against unauthorized use or misappropriation, maintaining proper accounting records, segregation of duties and putting plans and routines into execution with appropriate authority and in compliance with the relevant laws and regulations.

For the year under review, the Company's internal auditor is responsible for identifying and monitoring the Group's risks and internal control issues. Results of audit work, together with an assessment of the overall internal control framework are reported to the Audit Committee as appropriate.

The Group adopts a risk management framework which comprises the following processes:

– Identify significant risk in the Group's operation environment and evaluate the impacts of those risks on the Group's business;

– Develop necessary measures to manage those risks; and

– Monitor and review the effectiveness of such measures.

The Group formulated the policies and procedures of risk management and internal control as follows:

– The Group established an organizational structure with clear operating and reporting procedures, lines of responsibility and delegated authority;

– Each operating subsidiary maintains internal controls and procedures appropriate to its structure whilst complying with the Group's policies, standards and guidelines;

– Relevant executive Directors and senior management have been delegated with specific accountability for monitoring the performance of designated business operating units;

– A systematic review of the financial and business processes in order to provide management on the adequacy and effectiveness of internal controls. Where weaknesses are identified in the system of internal controls, management will evaluate and take necessary measures to ensure that improvements are implemented; and

– Code of ethics is established and adhered to by all employees to ensure high standards of conduct and ethical values in all business practices.

The Board will continue to monitor and remedial measures will be taken, if any, to strength the risk management and internal control system of the Group.

DISSEMINATION OF INSIDE INFORMATION

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

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2019, which give a true and fair view of the state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required by the GEM Listing Rules.

The Directors are of the view that the consolidated financial statements of the Group for the year ended 31 December 2019 has been prepared on this basis.

The Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's and the Group's ability to continue as a going concern.

Statement of Company's external auditor's responsibilities in respect of the consolidated financial statements is set out in the independent auditor's report.

GENERAL MEETINGS WITH SHAREHOLDERS

The annual general meeting ("AGM") is a forum in which the Board and the shareholders communicate directly and exchange views concerning the affairs and overall performance of the Group, and its future developments, etc.

At the AGM, the Chairman of the Board and other members of the respective committee are available to attend to questions raised by the shareholders. The external auditor of the Company is also invited to be present at the AGM to address the queries of the shareholders concerning the audit procedures and the independent auditor's report.

The forthcoming AGM of the Company will be held on 11 May 2020, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meeting on Requisition by Shareholders

Pursuant to Article 64 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting ("EGM"). EGMs shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within 2 months after the deposit of such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) themselves may convene a meeting in accordance with the Articles and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Putting Forward Proposals at General Meetings by Shareholders

There are no provisions in the Articles or the Companies Law (2015 Revision) of the Cayman Islands regarding procedures for shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an EGM for any business specified in such written requisition.

Procedures for Shareholders to Propose a Person for Election as a Director

Pursuant to Article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director, notice in writing by that person of his willingness to be elected and the biographical details of that person as required under Rule 17.50(2) of the GEM Listing Rules for publication by the Company shall have been lodged at the head office and principal place of business in Hong Kong or at the registered office of the Company. The period for lodgment of the notices required under this Article will commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

Detailed procedures for shareholders to propose a person for election as a Director are available on the Company's website at www.pfc-device.com.

Procedures for directing shareholders' enquiries to the Board

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

Should there be any enquiries and concerns from shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at 1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong by post for the attention of the Board and/or the Company Secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

Investor Relations

The Company has established a range of communication channels between itself and its shareholders and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.pfc-device.com and meetings with shareholders. New update of the Group's business development and operation are also available on the Company's website.

Constitutional Documents

During the year ended 31 December 2019, there was no change in the Company's constitutional documents. The Company's Memorandum and Articles of Association are available on both the Company's and the Stock Exchange's websites.

The Board of Directors of PFC Device Inc. (the "Company") present the Environmental, Social and Governance Report (the "ESG Report") of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

The Group has complied with the "Comply or Explain" provisions set out in the "Environmental, Social and Governance Reporting Guide" contained in Appendix 20 of the GEM Listing Rules.

OUR VISION, MISSION AND VALUES

The Group believes that technology should make life better for everyone, everywhere – and in so doing make a better world. Sustainability inspires us to reinvent and build the future while delivering value for our customers and company.

Our Vision

To become the first-tier solution provider of the high efficiency and energy saving components.

Our Mission

To initiate product innovation by advanced technology, provide customers with the best product quality and services and conform our products with the environment requirements.

Our Value

- Integrity – We conduct our business with integrity and ethical standards
- Innovation – We believe that technology innovations can promote human efficiency
- Quality – We provide high quality products that meets the expectations and requirements of our customers
- Continuity – We strive to achieve balance between the financial aspect of our business and social and environment aspects
- Collaboration – We build a strong, trusting relationship with our employees, customers and stakeholders

We have adopted product quality and safety to ensure accurate manufacturing process and process controls. Regular product inspections by both internal and external professional parties also constitute an important part of the safety program. Reliability tests are conducted to evaluate product risks. Our quality system complies with the OHSAS18001:2008 and IATF 16949:2016 International Standards.

STAKEHOLDERS ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group believes that understanding the views of our stakeholders provide a solid foundation to the long-term growth and success of the Group. Through various communication channels, the Group maintain an ongoing communications with our stakeholders, including shareholders, customers, suppliers, employees, government and regulatory bodies, to establish a continuing communications with our stakeholders.

Stakeholders	Communication Channel
Shareholders	Annual general meeting Annual and interim report Announcement and circulars Company website
Government and regulatory bodies	Regular meetings Regulatory documented information
Customers	Regular meetings Support service team
Suppliers	Regular meetings Procurement process
Community and the public	Company website Company's announcement

The management and staff responsible for the key functions of the Group have participated in the preparation of the ESG Report in reviewing its operations and identifying relevant ESG issues and its importance to our business and stakeholders. We present below the relevant and required disclosure.

ENVIRONMENT POLICY AND SUSTAINING EFFORTS

A) Emissions

Climate change has become a challenging problem for the world. As a responsible member of the planet, we are committed to protect the environment, and contribute to a better living community by developing appropriate emission reduction targets and corresponding measures. The goal is to mitigate greenhouse gas emissions and other environmental impacts by keeping strict supervision and control to achieve the desirable results.

The Group pledged to make continuous improvement on managing and monitoring waste gas, waste water, solid waste and noise. Every year, through engaging external licensed testing laboratories, we conduct testing on environmental parameters to evaluate the capability of existing facilities on meeting regulatory and environmental requirements and national standards.

Moreover, across the Group's major operation units we have an environmental management system. This system provides a mechanism for us to deal with emergencies on an effective and timely manner in case of severe environmental pollution accidents, as well as keeping track of the Group's energy efficiency and emission reduction targets.

B) Wastewater Management

The Group ensured the normal operation of wastewater treatment and purification facilities to control the effluent not exceeding the national limit, as well as enhancement of water recyclability and reduction of wastewater discharge.

C) Solid Waste Management

We complied with the requirements as set out in the local environmental protection laws and regulations in the PRC, including, but not limited to, the "The Environmental Protection Law of the People's Republic of China", the "Water Pollution Prevention and Control Law of the People's Republic of China", the "Atmospheric Pollution Prevention and Control Law of the People's Republic of China", "Regulations of Guangdong Province on the Prevention and Control of Environmental Pollution by Solid Waste". Our other regional sites in Hong Kong and Taiwan are expected to be in compliance to their own local laws and regulations.

To prevent potential harm to human health through the contamination of soil, air and water resources, the Group commits to ensure proper and immediate treatment of hazardous waste and waste that requires strict control by engaging capable and qualified companies to collect and go for further handling. Centralized waste collection, storage, transfer facilities are available for on-site solid waste in accordance to national standards, and to maximize recycling rate.

Licensed companies are engaged to collect waste for recycling purposes and proper disposal to landfills.

D) Exhaust Air Management

The Group managed the emissions of air pollutants in accordance with regulations and prohibited employees from burning within the premises those wastes such as plastics, which might generate toxic and hazardous gases.

E) Reduction of Greenhouse Gas ("GHG") Emission

The Group understood that business trips would increase energy consumption and hence the increase of GHG emissions. Therefore, the Group is striving to reduce the number of business trips or number of persons on trip, and to replace business trips in form of phone or video conferences for reduction of GHG emission.

We also set an aim to maintain a zero hazardous emission environment and to mitigate all unnecessary hazardous emissions at a minimal level. The Group strictly complied with the above said standards, rules, regulations and internal policies throughout the year and our aim was successfully achieved. We will continue to do so in the future.

There were no cases of non-compliance with laws and regulations relating to air pollution and emission during 2019.

CO_2e (carbon dioxide equivalent)	**2019**	**2019 Emissions**	**2018**	**2018 Emissions**
Scope 1 (land transportation)	59.25 tonnes	0.57kg CO_{2}-e/km	67.14 tonnes	0.60 kg CO_2-e/km
Scope 2 (operations)	2,492.10 tonnes	19.14 tonnes per million quantities shipped	2,974.89 tonnes	19.48 tonnes per million quantities shipped
Scope 3 (business flights)	10.66 tonnes	0.08 kg CO_{2}-e/km	15.53 tonnes	0.10 kg CO_{2}-e/km

Explanation:

Scope 1: Emission from land transport from Shunde factory to plating house in Shenzhen, and sending finished goods to Hong Kong warehouse.

Scope 2: Emission from electricity usage in Shunde Factory, and regionally offices in Taiwan, Shenzhen and Hong Kong.

Scope 3: Emission from taking flights for business trips.

Environmental Key Performance Indicators

Air emission	**2019**	**2019 Emissions**	**2018**	**2018 Emissions**
No_x	441.48 tonnes	4.28 kg CO_{2}-e/km	485.34 tonnes	4.31 kg CO_{2}-e/km
SO_x	0.47 tonnes	0.0045 kg CO_{2}-e/km	0.51 tonnes	0.0045 kg CO_{2}-e/km
PM	32.39 tonnes	0.31 kg CO_{2}-e/km	35.58 tonnes	0.32 kg CO_{2}-e/km

F) Energy Conservation

We implemented the following energy-saving and energy efficiency measures at various office locations to reduce energy usage:

- Installed high-performance electrical equipment. Replaced the traditional air compressors by variable frequency compressors reducing electricity usage by 50%;
- Used automatic lighting control system;
- Installed LED lighting on office floors to reduce electricity usage and motion sensors are also used in the lobbies;
- Employees must turn off lights and unnecessary energy devices to reduce energy consumption and avoid unnecessary use of energy; and
- We have increased the height of the ceiling in the molding area to improve ventilation. Besides, the air cooling system was changed to water cooling system to improve energy efficiency.

G) Paper Usage

We have implemented the following measures to reduce paper usage:
- Implemented electronic approval system;
- Double-sided printing; writing on both sides of papers;
- No paper cup is provided and glasses are used when serving external visitors;
- Reused stationeries such as file folders and envelopes;
- Placed recycling bins around the office to collect used paper products; and
- Placed waste paper recycling bins next to the printers so that employees can deposit and reuse recycled papers conveniently.

H) Water consumption

We have implemented the following to conserve water usage:
- Checked water consumption regularly;
- Repaired dripping faucets or hoses in a timely manner; and
- Minimized water pressure.

I) Green Procurement

To conserve our environment, besides quality, cost and delivery time, we also give priority to those suppliers providing environmentally friendly and energy-saving products and implement the following measures:
- Informed suppliers our requirements over environmental protection and energy saving;
- Gave priority to high energy-efficient products;
- We required suppliers to reduce packaging materials or use recyclable materials; and
- Green Manufacturing.

Whenever there is a significant change in equipment setting or production scale in the factories, internal environmental assessment will be performed. In addition, the Group conducted regular external environment assessments on boundary noise level, wastewater discharge, etc. These assessments evaluated the impact of our operations on the environment, and assisted us to determine the appropriate remedial actions in a timely manner.

Electricity, Water and Packaging Materials consumption is as follows:

Consumption of	**2019**	2018
Electricity	**3,955,714.00 KWh**	4,722,049.92 KWh
Water	**19,169.49 Tonnes**	26,648.00 Tonnes
Packaging Materials	**24.35 Tonnes**	29.17 Tonnes

Unit per million finished goods quantities shipped:

Consumption of	**2019**	2018
Electricity	**30,383.07 KWh**	30,915.67 KWh
Water	**147.24 Tonnes**	174.47 Tonnes
Packaging Materials	**0.19 Tonnes**	0.19 Tonnes

J) Energy Saving Project

To achieve the energy saving motive, we had substituted the hydraulic machinery by frequency conversion machinery so as to upgrade the encapsulation facilities. Through advancement to frequency conversion mode, the cooling wafer circulation system is removed and thus no more water is used in this machinery for cooling. Moreover, when the motor is installed with frequency conversion, its operating efficiency is improved and thus about 14,000 KWh electricity could be reduced annually.

SOCIAL ACCOUNTABILITY POLICY AND SUSTAINING EFFORTS

A) Employment

Our remuneration and benefits are reviewed on a yearly basis through performance assessment and market practice. Employees are entitled to mandatory provident fund, medical insurance and a variety of paid holidays including annual leave, sick leave and maternity leave.

Employees are important assets of the Group, we care about their well-being, respect their personal traits, make sure that all employees are subject to legislative protection and have equal opportunity in their career path. Also, we strive to increase their sense of belonging.

As at 31 December 2019, we had 129 (2018: 165) staff. Our staff demography are as below:

	2019		2018	
Workforce by Age Group	**Numbers of employee**	**%**	Numbers of employee	%
18 to 30	**40**	**31%**	72	44%
31 to 45	**57**	**44%**	64	39%
46 to 60	**28**	**22%**	27	16%
61 or above	**4**	**3%**	2	1%
	129	**100%**	165	100%

	2019		2018	
Workforce by Gender	**Numbers of employee**	**%**	Numbers of employee	%
Female	**67**	**52%**	85	52%
Male	**62**	**48%**	80	48%
	129	**100%**	165	100%

B) Employee Welfare

We value our employees, share great interests in their well-beings, especially better living standards, more comfortable working environment. In order to allow employees to enjoy a better quality of life and independent activity space after work, the staff dormitory has been changed from 8 people to 2 people.

C) Discrimination

We are committed to maintain our workplace free from discrimination and harassment of any form and provide equal opportunities for all our employees at different aspects, including recruitment, compensations and benefits, training, promotions, and transfers. All employees are assessed periodically based on their ability, performance and contribution, irrespective of their nationalities, races, religious, genders, ages, nationality status, disabilities or any other forms of discrimination.

The Group has zero tolerance in any form of discrimination or sexual harassment in our workplace. During the year, we have no incident of violation and abuse reported from our employees. There are also no complaints of any discrimination or sexual harassment.

D) Health and Safety

We are committed to protect the health and safety of our employees and the community and require our employees to comply with all relevant occupational health and safety regulation. We have implemented the following policies to provide our employees with a safe and healthy working environment:

- Established emergency measures in case of fire or explosion;
- Regular rescue, fire and evacuation drills;
- Actively promoted environmental protection, health and safety awareness of employees, and supported development of environmental protection, health and safety in the industry; and
- Ensure appropriate training is provided to all operating and administrative staff on health and safety matters.

E) Development and Training

We continued to provide comprehensive training to our employees based on our "Training Policy" and other related internal policies to promote learning culture inside the Group. We provided diversified on-the-job training to employees including holding orientation training, skills and attitude trainings for new employees.

Orientation training allows new employees to familiarize themselves with the corporate culture and the background of the Company. Continual assessment is conducted to keep track on the performance of employees. We also encourage and subsidize our management staff and professional personnel to attend external training.

During 2019, the total number of the Group's employees participating in training and the total number of training hours completed by the Group's employees are summarized as follows:

	No. of participants	Total no. of hours
Male	62	824
Female	67	850
	129	1,674

F) Labor Standards

We respect human rights of our employees, especially gender equality, and are strongly against the employment of child labor and forced labor as stipulated in the Group's "Prohibition of Child Labor Recruitment and Remedies Procedures". The Group strictly complies with the PRC Labor Law, "Provisions on the Prohibition of Using Child Labor" and other relevant laws and regulations. Recruitment guideline clearly stated that a person under 16 is not allowed to work in the Group and zero tolerance to child labor and forced labor. During 2019, the Group did not identify any child labor and forced labor or violations against the labor law.

G) Supply Chain Management

A supplier management system is established for selecting suppliers to ensure the quality of purchased materials complies with the relevant laws and regulations. During the qualification process, suppliers are subject to assessment, on-site audits on product quality and capabilities and quality consistency tests made by our quality department. The Group only made purchases from suppliers listed on the approved vendor list. Suppliers have to sign the "Supplier General Rules of Conduct" to confirm their compliance with business ethics, health & safety environment and public responsibilities rules.

H) Reliable products

The Group is committed to ensure product safety and to guarantee product quality. The Group adheres to strict product quality control in the production quality control. We carry out the production process according to the requirements of the relevant quality management system.

I) Anti-Corruption

The Group pursues stringent anti-corruption policy and safeguards interests of the Group and all stakeholders; we require all stakeholders to comply with the Hong Kong Prevention of Bribery Ordinance, and other applicable anti-bribery laws in their workplace, if appropriate.

The Group has formed a clear set of supervision and reporting guides, under which all units or individuals have the rights to report any violations of the Company or its departments. All information concerning the informer is kept in strict confidence.

Our Chairman, Mr. Yung Kwok Kee, Billy is responsible to monitor the reporting system, conduct investigation as well as report to the board of directors, and Audit Committee for all irregularities and violations of laws and regulations.

The Group will also review our anti-corruption policies to ensure its effectiveness.

There is no lawsuit regarding corruption within the Group or its employees during 2019.

J) Community Investment

As a socially responsible member, the Group is committed to cater for the needs of the communities where we operate. The Group strive to build a pleasant and healthy community and hope to cultivate employees' sense of social responsibility. We encourage our staff to serve the community and promote a volunteering cultural and make greater contributions to society. All employees of the Group are encouraged to participate in environmental protection activities and raise the environmental awareness of people in the community. We believe that by participating in community activities, we can increase employees' consciousness of citizenship and build positive value.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

During the current year, the principal activities of the Group are the design, manufacturing and sales of its own branded power discrete semiconductors namely Schottky and MOSFET. Details of the activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements. There are no significant changes in the nature of the Group's principal activities during the year.

Business review of the Group for the year ended 31 December 2019 as required by Schedule 5 to the Hong Kong Companies Ordinance, can be found in the Management Discussion and Analysis set out on pages 4 to 6 of this annual report which forms part of this directors' report.

For the key performance indicators of the Group, please refer to the section of "Financial Review" in this annual report.

An analysis of the Group's performance for the year by operating and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive income.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019. During the year, no interim dividend was paid.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital of the Company and outstanding share options of the Company are set out in notes 27 and 29 to the consolidated financial statements respectively.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 28 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 96.

ENVIRONMENTAL POLICY

The Group is committed to fulfilling its corporate social responsibility in community affairs, environmental protection and corporate governance during its business operation in order to achieve its sustainable development. The Company's Environment, Social and Governance Report is set out on pages 19 to 26 of this annual report.

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

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company during the year ended 31 December 2019.

DIRECTORS

The Directors during the year and up to date of this report are as follows:

Executive Directors

Mr. Chow Kai Chiu, David
Mr. Hong James Man-fai

Non-Executive Directors

Mr. Yung Kwok Kee, Billy
Mr. Tang Che Yin

Independent Non-Executive Directors

Mr. Lam, Peter
Mr. Leung Man Chiu, Lawrence
Mr. Fan Yan Hok, Philip

In accordance with the Articles 108 of the Articles, Mr. Hong James Man-fai, Mr. Tang Che Yin and Mr. Leung Man Chiu, Lawrence shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers such Directors to be independent.

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy") on 21 September 2016. In deciding whether to propose a dividend and in determining the dividend amount, the Board will take into account the results of operations, working capital, financial position, future prospects and capital requirements, as well as any other factors which the Directors may consider relevant. The payment of dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the articles of association of the Company.

EMOLUMENT POLICY

In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience). The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company, having regard to the Group's operating results, market competitiveness, individual performance and achievement, to the Board for determination.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with the highest emoluments are set out in notes 14 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors have entered into a service contract with the Company under which their term of appointment is three years. The appointment of the executive Directors may be terminated by either party by giving a least three months' written notice to the other.

Each of the INEDs have enter into a letter of appointment with the Company under which their term of appointment is three years. The appointment of each of the INEDs may be terminated by either party by giving a least one month's written notice to the other.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2019, none of the directors of the Company are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

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

As at 31 December 2019, the Directors and chief executives of the Company and/or any of their respective associates had the following interests and short positions in the shares (the "Shares"), underlying Shares and debentures of the Company and/or any of its associated corporations (which has the same meaning as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

I. Long Position in the Shares of the Company:

Name of Director	Capacity/Nature of interest	Number of Shares held/ interested in the Company	Percentage of shareholding as at 31 December 2019
Mr. Yung Kwok Kee, Billy ("Mr. Yung")	Interest in a controlled corporation *(note)*	949,127,925	58.65%
Mr. Hong James Man-fai ("Mr. Hong")	Beneficial interest	9,071,657	0.56%
Mr. Chow Kai Chiu, David ("Mr. Chow")	Beneficial interest	2,703,838	0.17%

Note:

Mr. Yung is interested in 100% of the issued share capital of Red Dynasty Investments Limited ("Red Dynasty"). Red Dynasty holds 80.5% interest in Shell Electric Holdings Limited ("Shell Electric"). Lotus Atlantic Limited ("Lotus Atlantic") is wholly and beneficially owned by Sybond Venture Limited ("Sybond Venture"), and Sybond Venture is wholly and beneficially owned by Shell Electric. Mr. Yung is therefore deemed to be interested in 949,127,925 Shares held by Lotus Atlantic which is an indirect wholly-owned subsidiary of Shell Electric for the purpose of SFO.

II. Long Position in the underlying Shares

Name of Director	Capacity	Number of underlying Shares held	Percentage of shareholding as at 31 December 2019
Mr. Hong	Beneficial interest	5,408,343 *(note 1)*	0.33%
Mr. Tang Che Yin ("Mr. Tang")	Beneficial interest	2,800,000 *(note 2)*	0.17%

Notes:

1. These underlying Shares represent 5,408,343 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Hong on 22 March 2017 pursuant to the share option scheme of the Company adopted on 19 September 2016 under which the said options can be exercised by Mr. Hong from 1 April 2017 to 31 March 2027 (both days inclusive) at the exercise price of HK$0.165 per Share.

2. These underlying Shares represent 2,800,000 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Tang on 22 March 2017 pursuant to the share option scheme of the Company adopted on 19 September 2016 under which the said options can be exercised by Mr. Tang from 1 April 2017 to 31 March 2027 (both days inclusive) at the exercise price of HK$0.165 per Share.

Save as disclosed above, as at 31 December 2019, none of Directors nor chief executive of the Company and/or any of their respective associates has registered an interest or short positions in the Shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interest and short positions of the person (other than the interest of the Directors or chief executive of the Company as disclosed above) or company which was required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Capacity/nature of interest	Number of Shares held/ interested in	Long/short position	Percentage of shareholding as at 31 December 2019
Lotus Atlantic	Beneficial owner	949,127,925 *(Note 1)*	Long	58.65%
Sybond Venture	Interest in a controlled corporation	949,127,925 *(Note 1)*	Long	58.65%
Shell Electric	Interest in a controlled corporation	949,127,925 *(Note 1)*	Long	58.65%
Red Dynasty	Interest in a controlled corporation	949,127,925 *(Note 1)*	Long	58.65%
Ms. Vivian Hsu	Family interest	949,127,925 *(Note 2)*	Long	58.65%

Notes:

1. Red Dynasty holds 80.5% interest in Shell Electric. Lotus Atlantic is wholly and beneficially owned by Sybond Venture, and Sybond Venture is wholly and beneficially owned by Shell Electric. Each of these companies is therefore deemed to be interested in 949,127,925 Shares owned and held by Lotus Atlantic which is an indirect wholly-owned subsidiary of Shell Electric for the purpose of the SFO.

2. These Shares represent the interest held by Lotus Atlantic which is a controlled corporation of Mr. Yung. Ms. Vivian Hsu ("Mrs. Yung") is the spouse of Mr. Yung. Under the SFO, Mr. Yung is deemed to be interested in all of the Shares owned by Lotus Atlantic and Mrs. Yung is deemed to be interested in all the Shares in which Mr. Yung is interested.

Save as disclosed above, as at 31 December 2019 and so far as known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved and adopted pursuant to the written resolutions on 19 September 2016. The terms of the Share Option Scheme are in accordance with Chapter 23 of the GEM Listing Rules. The following is a summary of the principal terms of the Share Option Scheme:

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is, among others, to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group.

2. Who may join

The Board may, at its discretion, offer to grant an option to any person belonging to any of the following classes of participants, to take up options to subscribe for the Shares:

(a) any full-time or part-time employees, executives or officers of the Group;

(b) any directors (including executive Directors, non-executive Directors and independent non-executive Directors) of the Group; and

(c) any suppliers, customers, consultants, agents, advisers and related entities to the Group.

3. Maximum number of Shares

(a) The maximum number of the Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the Company's issued share capital from time to time. No options may be granted under any schemes of the Company or the subsidiary if such grant will result in the maximum number being exceeded.

(b) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company) must not in aggregate exceed 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange which amounts to 160,000,000 Shares (the "General Mandate Limit").

As at the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme is 141,967,723 shares, representing approximately 8.8% of the Company's issued share capital as at the same date.

4. Maximum entitlement of each participant and connected persons

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue (the "Individual Limit").

5. Minimum period of holding an option and performance target

The Directors may fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant, provided that such terms and conditions are fair and reasonable in the opinion of the Directors and not being inconsistent with the Share Option Scheme and the GEM Listing Rules.

6. Time of acceptance of option

An option may be accepted by a participant within 30 days from the date of the offer of grant of the option with a payment of HK$1.00 to the Company by way of consideration to the grant.

7. Subscription Price of Shares

The subscription price of a Share in respect of any option granted under the Share Option Scheme, subject to any adjustments made in accordance with the Share Option Scheme, shall be such price as the Board in its absolute discretion shall determine, provided that such price will not be less than the highest of:

(a) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(b) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(c) the nominal value of a Share.

8. Time for exercising option

An option may be exercised in accordance with the terms of Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

9. Period of the Share Option Scheme

Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

Details of the share option granted and summary of movements of the outstanding share options for the year ended 31 December 2019 under the Share Option Scheme are set out in note 29 to the consolidated financial statements.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the related party transactions disclosed in note 34 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries a party to any arrangement which enable the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the five largest customers of the Group accounted for approximately 52% (2018: approximately 57%) of the total sales of the Group's turnover, of which 13% (2018: 14%) was attributable to the largest customer.

During the year ended 31 December 2019, the five largest suppliers of the Group accounted for approximately 73% (2018: approximately 81%) of the total purchases of the Group, of which 23% (2018: 26%) was attributable to the largest supplier.

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in the Group's five largest customers or suppliers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available and within the knowledge of the Directors, at least 25% of the Company's issued share capital were held by the public as at the date of this report.

CONTINUING CONNECTED TRANSACTIONS

The Group has entered into certain transactions in the ordinary course of business and on normal commercial terms which were "related party transactions", details of which are set out in note 34 to the consolidated financial statements. These transactions also constitute "Continuing Connected Transactions" (the "CCTs") under Chapter 20 of the GEM Listing Rules and the CCTs are fully exempted from the reporting, annual review, announcement, circular and independent shareholder's approval.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors recognise that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners, and improving the quality of services and products to its customers. Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and regular training is provided for its workers for the operation of different types of machinery, as well as work safety. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels to obtain their feedback and suggestions.

COMPLIANCE OF NON-COMPETITION UNDERTAKING

All the INEDs were delegated with the authority to review on an annual basis the compliance with the non-competition undertaking given by each of Lotus Atlantic, Sybond Venture, Shell Electric, Red Dynasty and Mr. Yung, the controlling shareholders of the Company (collectively, the "Covenantors") in favour of the Company dated 19 September 2016 (the "Non-Competition Deed"). The Covenantors have provided to the Company all information necessary for the annual review by the INEDs and the Covenantors have confirmed to the Company that each of the Covenantors and his/its associates have not breached the terms of the undertakings contained in the Non-Competition Deed. All INEDs confirmed that they are not aware of any non-compliance with the Non-Competition Deed by the Covenantors since the effective date of the Non-Competition Deed and up to the date of this report, including a transaction approved by them as disclosed in the paragraph headed "Compliance of Non-Competition Undertaking" on pages 54-55 of the 2018 annual report.

PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in place and was in force throughout the year.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, the Group was in compliance with all the laws and regulations applicable to the business operations of the Group.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by BDO Limited. A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Mr. Yung Kwok Kee, Billy
Chairman

Hong Kong, 19 March 2020

INDEPENDENT AUDITOR'S REPORT

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25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

To the shareholders of PFC Device Inc.
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of PFC Device Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 95, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 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 are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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 – Continued

Impairment assessment of property, plant and equipment

(Refer to notes 5.1(a) and 17 in the consolidated financial statements)

The Group had property, plant and equipment with carrying amount of US$6,941,000 as at 31 December 2019, which are subject to impairment assessment when impairment indicators are identified. As at 31 December 2019, management assessed that impairment indication existed for property, plant and equipment which are allocated to the cash-generating unit under the segment "sales of power discrete semiconductors" (the "CGU"). Accordingly, management has performed an impairment assessment on the CGU in accordance with the Group's accounting policies.

Based on the value-in-use calculation of the CGU, management has concluded that impairment provision is not necessary for the property, plant and equipment.

We have identified the impairment assessment of property, plant and equipment as a key audit matter due to the preparation of value-in-use calculation of the underlying CGU requires significant estimation and judgment by the management with respect to the key assumptions adopted in the cash flow projection including future revenue growth and gross profit margin, as well as the adoption of discount rate.

Our procedures in relation to management's impairment assessment on property, plant and equipment included:

- Checking the mathematical accuracy of the value-in-use calculation;
- Challenging the reasonableness of key assumptions of the cash flow projection including revenue growth, gross profit margin and discount rate based on our knowledge of the business and industry;
- Comparing the current year's actual results with the figures included in the prior year's cash flow projection to consider whether the key assumptions used by the management had been over-optimistic;
- Reconciling input data to supporting evidence, such as approved budget and annual sales plan of customers, and considering the reasonableness of this evidence; and
- Performing sensitivity analysis.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

– evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – Continued

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

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

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

We communicate with 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 directors, 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.

BDO Limited
Certified Public Accountants
Lee Ming Wai
Practising Certificate no. P05682

Hong Kong, 19 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **US$'000**	2018 US$'000
Revenue	7	**17,997**	23,354
Cost of sales		**(15,398)**	(19,098)
Gross profit		**2,599**	4,256
Other income	8	**20**	277
Selling and distribution expenses		**(124)**	(132)
Administrative expenses		**(3,533)**	(4,392)
Other operating expenses		**(227)**	(181)
Impairment loss on goodwill	18	**–**	(563)
Impairment loss on property, plant and equipment	17	**–**	(442)
Finance costs	10	**(38)**	(3)
Other (losses)/gains	9	**(12)**	113
Loss before income tax	11	**(1,315)**	(1,067)
Income tax expense	12	**(110)**	(23)
Loss for the year attributable to owners of the Company		**(1,425)**	(1,090)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Exchange difference arising from translation of overseas operations		**(162)**	(923)
Other comprehensive income for the year		**(162)**	(923)
Total comprehensive income for the year		**(1,587)**	(2,013)
		US Cents	US Cents
Loss per share	16		
– Basic		**(0.088)**	(0.068)
– Diluted		**(0.088)**	(0.068)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 US$'000	2018 US$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	**6,941**	8,136
Right-of-use assets	19	**142**	–
Prepayments for acquisition of property, plant and equipment		**23**	2,060
Deferred tax assets	26	**183**	213
		7,289	10,409
Current assets			
Inventories	20	**3,936**	6,881
Trade and other receivables, deposits and prepayments	21	**6,160**	4,240
Amount due from a fellow subsidiary	24	**7**	2
Tax prepaid		**–**	14
Cash and bank balances	22	**6,803**	4,305
		16,906	15,442
Current liabilities			
Trade and other payables	23	**2,608**	2,151
Lease liabilities	19	**125**	–
Amounts due to fellow subsidiaries	24	**76**	170
Bank borrowing	25	**–**	600
Tax payable		**20**	8
		2,829	2,929
Net current assets		**14,077**	12,513
Total assets less current liabilities		**21,366**	22,922
Non-current liabilities			
Lease liabilities	19	**17**	–
Net assets		**21,349**	22,922
CAPITAL AND RESERVES			
Share capital	27	**2,085**	2,085
Reserves	28	**19,264**	20,837
Total equity		**21,349**	22,922

On behalf of the directors

Chow Kai Chiu, David
Director

Hong James Man-Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital US$'000	Share premium* US$'000 note 28(a)	Share option reserve* US$'000 note 28(b)	Merger reserve* US$'000 note 28(c)	Capital contribution* US$'000 note 28(d)	Translation reserve* US$'000 note 28(e)	Accumulated losses* US$'000 note 28(f)	Total equity US$'000
At 1 January 2018	2,073	20,784	236	905	1,247	370	(935)	24,680
Loss for the year	–	–	–	–	–	–	(1,090)	(1,090)
Other comprehensive income for the year								
– Exchange difference arising from translation of overseas operations	–	–	–	–	–	(923)	–	(923)
Total comprehensive income for the year	–	–	–	–	–	(923)	(1,090)	(2,013)
Vested share options forfeited (note 29)	–	–	(2)	–	–	–	2	–
Transactions with owner:								
Shares issued upon exercise of options granted by the Company (note 27)	12	283	(93)	–	–	–	–	202
Share-based payment expense of options granted by the Company in 2017 (note 29)	–	–	53	–	–	–	–	53
At 31 December 2018 and 1 January 2019	**2,085**	**21,067**	**194**	**905**	**1,247**	**(553)**	**(2,023)**	**22,922**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(1,425)**	**(1,425)**
Other comprehensive income for the year								
– Exchange difference arising from translation of overseas operations	**–**	**–**	**–**	**–**	**–**	**(162)**	**–**	**(162)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(162)**	**(1,425)**	**(1,587)**
Vested share option forfeited (note 29)	**–**	**–**	**(2)**	**–**	**–**	**–**	**2**	**–**
Transactions with owner:								
Share-based payment expense of options granted by the Company in 2017 (note 29)	**–**	**–**	**14**	**–**	**–**	**–**	**–**	**14**
At 31 December 2019	**2,085**	**21,067**	**206**	**905**	**1,247**	**(715)**	**(3,446)**	**21,349**

* The total of these equity accounts at the end of the reporting period represents "Reserves" in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 US$'000	2018 US$'000
Cash flows from operating activities		
Loss before income tax	**(1,315)**	(1,067)
Adjustments for:		
Interest income	**(7)**	(4)
Finance costs	**38**	3
Depreciation on property, plant and equipment	**1,653**	1,692
Depreciation on right-of-use assets	**345**	–
Write down of inventories to net realisable value	**406**	298
Impairment loss on goodwill	**–**	563
Impairment loss on property, plant and equipment	**–**	442
Share-based payment expense	**14**	53
Exchange difference	**91**	(145)
Operating profit before working capital changes	**1,225**	1,835
Decrease/(Increase) in inventories	**2,418**	(1,640)
(Increase)/Decrease in trade and other receivables, deposits and prepayments	**(133)**	2,686
(Increase)/Decrease in amount due from a fellow subsidiary	**(6)**	2
(Decrease)/Increase in amounts due to fellow subsidiaries	**(93)**	114
Increase/(Decrease) in trade and other payables	**453**	(1,189)
Cash generated from operations	**3,864**	1,808
Income tax paid	**(49)**	(125)
Net cash from operating activities	**3,815**	1,683
Cash flows from investing activities		
Interest received	**5**	4
Purchase of property, plant and equipment	**(329)**	(2,845)
Net cash used in investing activities	**(324)**	(2,841)
Cash flows from financing activities		
Interest paid for bank borrowings (note 33)	**(33)**	(3)
Proceeds from bank borrowings (note 33)	**1,330**	1,274
Repayment of bank borrowings (note 33)	**(1,930)**	(1,532)
Payment of principal element of lease liabilities (note 33)	**(345)**	–
Payment of interest element of lease liabilities (note 33)	**(5)**	–
Proceeds from issue of shares upon exercise of the Company's share options (note 27)	**–**	202
Net cash used in financing activities	**(983)**	(59)
Net increase/(decrease) in cash and cash equivalents	**2,508**	(1,217)
Cash and cash equivalents at beginning of year	**4,305**	5,573
Effect of foreign exchange rate change	**(10)**	(51)
Cash and cash equivalents at end of year	**6,803**	4,305
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**6,803**	4,305

1. GENERAL INFORMATION

PFC Device Inc. (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 October 2016.

The address of its registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 1/F, Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in manufacturing and sales of power discrete semiconductors (the "Semiconductor Business").

The Company's holding company is Lotus Atlantic Limited, a company incorporated in the British Virgin Islands ("BVI") and the directors of the Company consider its ultimate holding company is Shell Electric Holdings Limited ("Shell Electric"), a company incorporated in Bermuda.

Particulars of the Company's subsidiaries as at 31 December 2019 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and paid up capital	Effective interest held by the Company Directly	Effective interest held by the Company Indirectly	Principal activities
PFC Device Holdings Limited ("PFC Device Holdings")	BVI/Hong Kong	12,656,153 preference shares of United States Dollars ("US$")13,222,820 658,255 common shares of US$658,255	100%	–	Investment and trade-mark holding
PFC Device Corporation (note (i))	BVI/Taiwan	4,956,153 preference shares of US$5,522,820 105,000 common shares of US$105,000	–	100%	Research and development and sales of power discrete semiconductors
PFC Device (HK) Limited	Hong Kong	Hong Kong Dollars ("HK$")1	–	100%	Sales of power discrete semiconductors
Guangdong PFC Device Limited ("PFC Device (GD)") (note (ii))	The People's Republic of China ("PRC")	US$13,000,000	–	100%	Manufacturing and sales of power discrete semiconductors

Notes:

(i) PFC Device Corporation has set up a branch in Taiwan which is principally engaged in research and development, sales and marketing of the Group's products.

(ii) PFC Device (GD) was established in the PRC as a wholly-foreign-owned enterprise and has set up a branch in the PRC for provision of sales support services.

The financial statements for the year ended 31 December 2019 were approved and authorised for issue by the directors of the Company on 19 March 2020.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") which collective term includes individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The financial statements have been prepared under the historical cost basis.

The financial statements are presented in US$, which is same as the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where estimates and assumptions are significant to the financial statements, are disclosed in note 5.

3. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new or revised HKFRSs – effective 1 January 2019

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2019:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3 Business Combinations; HKAS 12 Income Taxes; and HKAS 23 Borrowing Costs

The impact of the adoption of HKFRS 16 *Leases* ("HKFRS 16") have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

HKFRS 16 Leases

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 *Leases* ("HKAS 17"), HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases- Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with a narrow exception of this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. Below are the new definition of a lease under HKFRS 16, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2019 (Continued)

HKFRS 16 Leases (Continued)

(i) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(ii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

The new accounting policies for lessees under HKFRS 16 are set out in note 4.6A.

(iii) Transition

The Group has applied HKFRS 16 using the modified retrospective approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application, i.e. 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be prepared under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at 1 January 2019.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2019 (Continued)

HKFRS 16 Leases (Continued)

(iii) Transition (Continued)

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for the leases previously classified as operating leases under HKAS 17 at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the statement of financial position at 31 December 2018. For all these right-of-use assets, the Group has applied HKAS 36 *Impairment of Assets* at 1 January 2019 to assess if there was any impairment as on that date.

The Group has applied the practical expedient to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. In addition, HKFRS 16 is applied only to those lease contracts that were previously identified by the Group as leases applying HKAS 17 and HK(IFRIC)-Int 4.

(iv) Impact of adoption of HKFRS 16

The impact of transition to HKFRS 16 on the consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 is as follows:

	Increase US$'000
Non-current assets	
Right-of-use assets	317
Current liabilities	
Lease liabilities	317

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	US$'000
Operating lease commitments as at 31 December 2018	345
Less: leases of low-value assets	(3)
Less: value-added tax	(21)
Less: future interest expenses	(4)
Total lease liabilities as at 1 January 2019	317

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 is 3.6%.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2019 (Continued)

HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12 *Income Taxes* by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met instead of at fair value through profit or loss.

Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarifies that HKFRS 9 applies to long-term interests in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these long-term interests before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3 Business Combinations

Amendments to HKFRS 3 clarify that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition-date fair value.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2019 (Continued)

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12 Income Taxes

Amendments to HKAS 12 clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23 Borrowing Costs

Amendments to HKAS 23 clarify that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

(b) New or revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

1 Effective for annual periods beginning on or after 1 January 2020.

2 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred or removed. Early application of the amendments continues to be permitted.

The directors anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors are currently assessing the possible impact of these new or revised standards on the Group's results and financial position in the first year of application. The directors consider that these new standards and amendments are unlikely to have a material impact to the Group's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (see 4.2 below). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Business combination and basis of consolidation (Continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments, in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to the fair value of the contingent consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Goodwill arising on business combination is measured according to the policy in note 4.3.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present:

– power over the investee;

– exposure, or rights, to variable returns from the investee; and

– the ability to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Goodwill

Goodwill arising from the acquisition of subsidiaries, associates and joint ventures represents the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated statement of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses. In case of associates and joint ventures, goodwill is included in the carrying amount of the interests in associates and joint ventures, respectively, rather than recognised as a separate asset on the consolidated statement of financial position.

Goodwill is reviewed for impairment at the end of each reporting period or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired (note 4.15). On the subsequent disposal of a subsidiary, associate or joint venture, the carrying amount of goodwill relating to the entity sold is included in determining the amount of gain or loss on disposal.

4.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Furniture and fixtures	3–10 years
Office equipment	3–5 years
Moulds, tools and machineries	3–10 years
Leasehold improvements	3–8 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 4.15).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 Intangible assets (Other than goodwill)

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. After initial recognition, intangible assets with finite useful lives are amortised over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but reviewed for impairment at least annually (note 4.15) either individually or at cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

– it is technically feasible to develop the product for it to be sold;

– adequate resources are available to complete the development;

– there is an intention to complete and sell the product;

– the Group is able to sell the product;

– sale of the product will generate future economic benefits; and

– expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

4.6 Leases

A. Accounting policies applicable from 1 January 2019

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

Right-of-use asset is recognised at cost and comprises: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Leases (Continued)

A. Accounting policies applicable from 1 January 2019 (Continued)

Lease liability

Lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the use of the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g. a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

B. Accounting policies applied until 31 December 2018

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

The Group as lessee under operating lease

Rentals payable under the operating leases, net of any incentives received or receivable, are recognised to profit or loss on a straight-line basis over the lease terms.

4.7 Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Financial instruments (Continued)

(i) Financial assets (Continued)

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. There are three measurement categories into which the Group classifies its debt instruments:

(1) Financial assets at amortised cost

Financial 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. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(2) Financial assets at fair value through other comprehensive income ("FVOCI")

Financial 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. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income is calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

(3) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Changes in fair value and interest income are recognised in profit or loss.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as financial assets at FVTPL and subsequently measured at fair value, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Financial instruments (Continued)

(ii) Impairment loss on financial assets

The Group adopts expected credit losses ("ECL") model in assessing impairment for financial asset. The Group recognises loss allowances for ECL on trade receivables, other financial assets measured at amortised cost and debt investments measured at FVOCI. ECL are measured on either of the following bases: (1) 12-month ECL: these are the ECL that result from possible default events within the 12 months after the reporting date; or (2) lifetime ECL: these are ECL that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the financial assets' original effective interest rate.

The Group measures loss allowances for trade receivables using simplified approach and has calculated ECL based on lifetime ECL. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the Group applies the general approach to measure ECL, that is to recognise a loss allowance based on 12-month ECL. However, when there has been a significant increase in credit risk since origination, the loss allowance will be based on the lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is more than 90 days past due.

The Group recognises an impairment gain or loss in profit or loss for financial instruments carried at amortised cost by adjusting their carrying amount through the use of a loss allowance account. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

For investments in debt instruments that are measured at FVOCI, impairment loss is recognised in other comprehensive income and accumulated in the fair value reserve without reducing the carrying amounts of those debt instruments.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less allowance) of the financial asset. For non-credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, amounts due to related companies and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (note 4.16).

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability or, where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in note 4.7(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Financial instruments (Continued)

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

4.8 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term, highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.9 Recognition of revenue and other income

Revenue from contracts with customers is recognised when control of goods and services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

(i) provides all the benefits received and consumed simultaneously by the customer;

(ii) creates or enhances an asset that the customer controls as the Group performs; or

(iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If the control of the goods or services transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point of time when the customer obtain control of the goods or service.

When the contract contains a financing component which provides a significant financing benefit to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Recognition of revenue and other income (Continued)

Revenue from sales of goods is recognised at a point in time when the goods are delivered to and accepted by customers, taking into account any sales returns, discounts and rebates allowed by the Group. There is generally only one performance obligation. No element of financing is deemed to be as the sales are made with credit terms of 30 to 60 days, which is consistent with the market practice.

Interest income is accrued on a time basis using the effective interest method by applying applicable interest rate on (i) the amortised cost (i.e gross carrying amount less loss allowance for credit-impaired financial assets; or (ii) the gross carrying amount for non-credit impaired financial assets.

4.10 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4.11 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Foreign currencies

Foreign currency transactions are translated into the functional currency of the individual entity or branch using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the rates ruling at the end of the reporting period are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of initial transactions. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities and branches of the Group are currencies other than US$. For the purpose of preparing the consolidated financial statements, assets and liabilities of these entities at the end of the reporting period are translated into US$ at the exchange rate prevailing at the end of the reporting period. Income and expense items are translated into US$ at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating those ruling when the transactions took place are used. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in translation reserve.

On the disposal of a foreign operation, the cumulative exchange differences recognised in the translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognised in the translation reserve.

4.13 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 Share-based payment transactions

The Group operates equity-settled share-based compensation plans for remuneration of its employees and others providing similar services. All employee services and similar services received in exchange for the grant of financial instruments are measured at their fair values. The cost of equity-settled share-based compensation is measured by reference to the fair value of the equity instrument at the date on which they are granted. In determining the fair value, no account is taken of any non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based compensation is ultimately recognised as an expense in profit or loss unless it qualifies for recognition as asset with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The fair value of the share options granted by the Company is recognised in profit or loss with a corresponding increase in share option reserve. Upon exercise of the share options, the relevant amount in the share option reserve is transferred to the share premium account. In case the vested share options are forfeited, the amount in the share option reserve is released directly to retained profits.

4.15 Impairment of non-financial assets

The Group's goodwill, property, plant and equipment and right-of-use assets are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Impairment of non-financial assets (Continued)

Impairment loss recognised for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

Impairment loss on goodwill is not reversed in subsequent periods, including impairment loss recognised in an interim period. In respect of other assets, impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's or cash-generating unit's recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises.

4.16 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an assets, that necessarily take a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the assets.

Capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs consist of interest charges and other costs incurred in connection with the borrowing of funds.

4.17 Provisions and contingent liabilities

Provision are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation as a result of a past event which will probably result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.18 Segment reporting

The Group identifies operating segments, and prepares segment information based on the regular internal financial information reported to the executive directors of the Company for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

4.19 Government grants

Government grants are recognised when there is reasonable assurance that the grants will be received and all the attaching conditions will be complied with. When the grants relate to cost items, they are recognised as income on a systematic basis over the periods that the related costs for which the grants are intended to compensate are recognised as expenses. Government grants related to income are presented under other income.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

5.1 Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are as follows:

(a) Useful lives and estimated impairment of property, plant and equipment

Management determines the estimated useful lives, and related depreciation charges for the Group's property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of those assets of similar nature and functions. Management will increase the depreciation where useful lives are less than previously estimated lives. Management will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

The Group assesses whether there are any indicators of impairment for property, plant and equipment. If such an indication exists, the recoverable amount of property, plant and equipment is estimated using the higher of its fair value less costs of disposals and its value-in-use. If the carrying amount of property, plant and equipment exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in profit or loss. The determination of recoverable amount based on value-in-use calculation incorporates a number of key estimates and assumptions about future events and therefore, are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgments, the directors take into consideration assumptions that are mainly based on market conditions existing at the end of the reporting period and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. Future changes in the events and conditions underlying the estimates and judgements would affect the estimation of recoverable amounts and result in adjustments to their carrying amounts.

(b) Allowance for inventories

Management carries out inventory review on a product-by-product basis at the end of each reporting period and provides allowance for obsolete items. A considerable amount of judgment and estimates is required in determining such allowance. If conditions which have an impact on the net realisable value of inventories deteriorate, additional allowances may be required. Management reviews the inventory ageing analysis at the end of the reporting period and identifies slow-moving inventories that are no longer suitable for consumption and saleable. Management estimates the net realisable value for such inventories based primarily on the latest invoice price and current market conditions.

(c) Impairment losses on receivables

The measurement of impairment losses on receivables requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At the end of each reporting period, the Group assesses whether there has been a significant increase in credit risk on receivables since initial recognition by comparing the risk of default occurring over the expected life. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

(d) Estimates of current and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation, the timing of payment of the related taxation and the implementation of these taxes. The Group recognised income tax and other taxes based on management's best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expense in the period in which the tax calculations are finalised with the local tax authorities.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

5.2 Critical judgment in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Accounting for transactions entered into with subcontractors

Certain production processes are outsourced to subcontractors. Terms and arrangements agreed with the subcontractors and the business practice of individual subcontractors are different. The Group has followed the guidance on principal versus agent considerations set out in HKFRS 15 to determine the appropriate accounting treatment for the transactions entered into with different subcontractors which is based on an evaluation of the terms and arrangements agreed with different subcontractors, and the business practice of individual subcontractors so as to assess whether the nature of their promise is a performance obligation to provide the specified goods or services itself (i.e. the subcontractors are principal) or to arrange for those goods or services to be provided by the other party (i.e. the subcontractors are agent). The assessment requires significant judgement by the management.

6. SEGMENT INFORMATION

Operating segment information

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's chief operating decision-maker for the purposes of resources allocation and assessment of segment performance. The Group has identified the following reportable operating segments:

Sales of power discrete semiconductors	–	This segment engages in manufacturing and sales of power discrete semiconductors
Trading of raw materials	–	This segment engages in sales of raw materials, mainly Epitaxy

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment revenue represents revenue from external customers and there were no inter-segment sales between different segments during the year and in prior year. Reportable segment profit or loss excludes corporate income and expenses from the Group's profit or loss before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarters which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

Information of the operating segments of the Group reported to the chief operating decision-maker for the purposes of resources allocation and performance assessment does not include assets and liabilities. Accordingly, no information of segment assets and segment liabilities is presented.

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

Information regarding the Group's reportable segments including reportable segment revenue, segment profit or loss, reconciliations to loss before income tax, disaggregation of revenue from contracts with customers by timing of revenue recognition and by major product and other segment information are as follows:

	Sales of power discrete semiconductors US$'000	Trading of raw materials US$'000	Total US$'000
Year ended 31 December 2019			
Reportable segment revenue	**17,463**	**534**	**17,997**
Reportable segment profit	**2,419**	**180**	**2,599**
Corporate and unallocated income			**20**
Corporate and unallocated expenses			
– Employee costs			**(2,472)**
– Depreciation of right-of-use assets			**(260)**
– Depreciation of property, plant and equipment			**(297)**
– Finance costs			**(38)**
– Others*			**(867)**
Loss before income tax			**(1,315)**

	Sales of power discrete semiconductors US$'000	Trading of raw materials US$'000	Corporate/ Unallocated US$'000	Consolidated US$'000
Year ended 31 December 2019				
Depreciation of property, plant and equipment	**1,356**	**–**	**297**	**1,653**
Depreciation of right-of-use assets	**85**	**–**	**260**	**345**
Write down of inventories to net realisable value	**406**	**–**	**–**	**406**
Additions to specified non-current assets#	**401**	**–**	**67**	**468**

6. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

	Sales of power discrete semiconductors US$'000	Trading of raw materials US$'000	Total US$'000
Year ended 31 December 2018			
Reportable segment revenue	21,442	1,912	23,354
Reportable segment profit	2,533	766	3,299
Corporate and unallocated income			277
Corporate and unallocated expenses			
– Employee costs			(2,932)
– Rental and related expenses			(313)
– Depreciation of property, plant and equipment			(345)
– Impairment loss on property, plant and equipment			(48)
– Finance costs			(3)
– Others*			(1,002)
Loss before income tax			(1,067)

	Sales of power discrete semiconductors US$'000	Trading of raw materials US$'000	Corporate/ Unallocated US$'000	Consolidated US$'000
Year ended 31 December 2018				
Depreciation of property, plant and equipment	1,347	–	345	1,692
Write down of inventories to net realisable value	298	–	–	298
Impairment loss on goodwill	563	–	–	563
Impairment loss on property, plant and equipment	394	–	48	442
Additions to specified non-current assets#	2,797	–	–	2,797

Including additions to property, plant and equipment, prepayments for acquisition of property, plant and equipment, right-of-use assets and goodwill (that is, "specified non-current assets")

* Others mainly comprise of legal and professional fees, travelling expenses and other office expenses

6. SEGMENT INFORMATION (Continued)

Geographical segment information

The following table provides an analysis of the Group's revenue from external customers, determined based on the location of the customers:

	2019 US$'000	2018 US$'000
Hong Kong	–	–
Other regions of the PRC	9,320	13,596
Taiwan	7,150	8,296
Asia, other than the PRC	1,527	1,462
	17,997	23,354

An analysis of the Group's specified non-current assets by geographical locations, determined based on the location of the assets or the location of operations, is as follows:

	2019 US$'000	2018 US$'000
Hong Kong	–	–
Other regions of the PRC	6,549	9,640
Taiwan	557	556
	7,106	10,196

Information about major customers

Revenue from major customers, sales of whom individually accounted for 10% or more of the Group's revenue, are set out below:

	2019 US$'000	2018 US$'000
Customer A*	2,382	N/A
Customer B*	2,298	3,275
Customer C*	N/A	2,967
Customer D*	N/A	2,617

N/A: not applicable as sales of the customer for the respective year is less than 10% of the Group's revenue

* customer of the operating segment of "Sales of power discrete semiconductors"

7. REVENUE

The Group is principally engaged in the manufacturing and sales of power discrete semiconductors. Revenue from contracts with customers within the scope of HKFRS 15 which is recognised at a point in time comprise:

	2019 **US$'000**	2018 US$'000
Sales of power discrete semiconductors	**17,463**	21,442
Trading of raw materials	**534**	1,912
	17,997	23,354

8. OTHER INCOME

	2019 **US$'000**	2018 US$'000
Bank interest income	**7**	4
Government grants	**9**	12
Sundry income	**4**	261
	20	277

During the year, the Group received government subsidy of RMB60,000 (equivalent to US$9,000) (2018: RMB80,000 (equivalent to US$12,000)) from the district level of the PRC government, which represents special funds subsidy to small and medium-sized enterprises. There are no unfulfilled conditions and other contingencies attached to these subsidies.

9. OTHER (LOSSES)/GAINS

	2019 **US$'000**	2018 US$'000
Exchange (loss)/gain, net	**(12)**	113

10. FINANCE COSTS

	2019 **US$'000**	2018 US$'000
Interest charges on bank borrowings	**33**	3
Interest element of lease liabilities	**5**	–
	38	3

11. LOSS BEFORE INCOME TAX

	2019 **US$'000**	2018 US$'000
Loss before income tax is arrived at after charging:		
Auditors' remuneration#		
Current year	**90**	101
Carrying amount of inventories sold	**14,992**	18,800
Write down of inventories to net realisable value	**406**	298
Research and development expenses*^	**190**	155
Depreciation of property, plant and equipment	**1,653**	1,692
Depreciation of right-of-use assets (note)	**345**	–
Employee benefit expenses (including directors' emoluments) (note 13)	**3,355**	4,183
Payments in respect of leases classified as operating leases under HKAS 17	**–**	384
Payments not included in the measurement of lease liabilities relating to lease of low value assets – office equipment	**3**	–

Fees for audit services rendered by the auditor of the Company amounted to US$81,000 (2018: US$86,000)

* included in other operating expenses

^ exclude staff costs and depreciation of property, plant and equipment

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated note 3(a).

12. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2019 **US$'000**	2018 US$'000
Current tax		
– Other regions of the PRC		
– Enterprise Income Tax ("EIT")	**55**	24
– Taiwan profits tax	**–**	95
	55	119
Under/(Over) provision in prior year		
– Hong Kong profits tax	**–**	(4)
– Other region of the PRC		
– EIT	**1**	2
– Taiwan profits tax	**19**	–
	20	(2)
Deferred tax (note 26)	**35**	(94)
Income tax expense	**110**	23

Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits derived from Hong Kong for the year. Profits tax arising from operations in Taiwan is calculated at 20% (2018: 20%) on the estimated assessable profit for the year. EIT arising from other regions of the PRC is calculated at 25% (2018: 25%) on the estimated assessable income for the year.

12. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the loss before income tax in the consolidated statement of comprehensive income as follows:

	2019 **US$'000**	2018 US$'000
Loss before income tax	**(1,315)**	(1,067)
Tax on profit or loss at the rates applicable to profits or loss in the jurisdictions concerned	**(246)**	(151)
Tax effect of revenue not taxable for tax purpose	**(3)**	(2)
Tax effect of expenses not deductible for tax purpose	**106**	23
Utilisation of tax losses previously not recognised	**(13)**	–
Tax effect of tax losses not recognised	**218**	106
Tax effect of other temporary differences not recognised	**28**	49
Under/(Over) provision in prior year	**20**	(2)
Income tax expense	**110**	23

13. EMPLOYEE BENEFIT EXPENSES

Employee costs (including directors) comprise:

	2019 **US$'000**	2018 US$'000
Salaries, wages and other benefits	**3,167**	3,901
Contribution to defined contribution retirement plans#	**174**	229
Equity-settled share-based payment expense (note 29)	**14**	53
	3,355	4,183

no contribution is available for reducing the Group's existing level of contribution in the future

14. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments are disclosed as follows:

	Fees US$'000	Salaries, allowances and other benefits US$'000	Discretionary bonus* US$'000	Share-based payment expense US$'000 (note)	Pension scheme contribution US$'000	Total US$'000
Year ended 31 December 2019						
Executive Directors						
Mr. Hong James Man-fai ("Mr. Hong")	3	160	14	3	2	182
Mr. Chow Kai Chiu, David ("Mr. Chow")	3	–	–	–	–	3
Non-Executive Directors						
Mr. Yung Kwok Kee, Billy ("Mr. Yung")	3	–	–	–	–	3
Mr. Tang Che Yin ("Mr. Tang")	3	–	–	3	–	6
Independence Non-Executive Directors						
Mr. Lam, Peter ("Mr. Lam")	23	–	–	–	–	23
Mr. Leung Man Chiu, Lawrence ("Mr. Leung")	23	–	–	–	–	23
Mr. Fan Yan Hok, Philip ("Mr. Fan")	23	–	–	–	–	23
Total	81	160	14	6	2	263

14. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

	Fees US$'000	Salaries, allowances and other benefits US$'000	Discretionary bonus* US$'000	Share-based payment expense US$'000 (note)	Pension scheme contribution US$'000	Total US$'000
Year ended 31 December 2018						
Executive Directors						
Mr. Hong	3	157	13	12	2	187
Mr. Chow	3	–	–	–	–	3
Non-Executive Directors						
Mr. Yung	3	–	–	–	–	3
Mr. Tang	3	–	–	7	–	10
Independence Non-Executive Directors						
Mr. Lam	22	–	–	–	–	22
Mr. Leung	22	–	–	–	–	22
Mr. Fan	22	–	–	–	–	22
Total	78	157	13	19	2	269

* The discretionary bonus is performance-related with the basis determined by the Remuneration Committee.

Note:

These amounts represent the estimated value of share options granted to the relevant Directors under the PFC Device Option Scheme (note 29). The value of these share options was measured according to the accounting policies for share-based payments as set out in note 4.14. Further details of the options granted are set out in note 29.

No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2019 (2018: nil). In addition, none of the Directors waived or agreed to waive any emoluments for the year ended 31 December 2019 (2018: nil).

14. DIRECTORS' EMOLUMENTS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one (2018: one) director whose emoluments are included in note 14(a) above. The emoluments payable to the remaining four (2018: four) highest paid individuals are as follows:

	2019 US$'000	2018 US$'000
Salaries, allowances and other benefits	**351**	403
Discretionary bonus	**40**	37
Share-based payment expense	**2**	7
Contribution to pension scheme	**8**	6
	401	453

The emoluments of the above non-director highest paid individuals were within the following bands:

	2019 Number of individuals	2018 Number of individuals
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**1**	1

No emoluments were paid by the Group to any of the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2018: nil).

(c) Senior management's emoluments

Emoluments paid or payable to members of senior management who are not directors of the Company were within the following bands:

	2019 Number of individuals	2018 Number of individuals
Nil to HK$1,000,000	**1**	2

15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

16. LOSS PER SHARE

The calculation of basic loss per share is based on the following data:

	2019 **US$'000**	2018 US$'000
Loss		
Loss for the year attributable to owners of the Company	**(1,425)**	(1,090)

	2019 **Number of shares** **'000**	2018 Number of shares '000
Number of shares		
Weighted average number of ordinary shares in issue during the year	**1,618,032**	1,613,126

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of US$1,425,000 (2018: loss of US$1,090,000), and the weighted average number of ordinary shares of 1,618,032,000 (2018: 1,613,126,000) in issue during the year.

Diluted loss per share for the years ended 31 December 2018 and 31 December 2019 are the same as the basic loss per share as the impact of the potential dilutive ordinary shares outstanding which are the share options granted by the Company on 22 March 2017 (note 29) has an anti-dilutive effect on the basic loss per share presented for these years.

17. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures US$'000	Office equipment US$'000	Moulds, tools and machineries US$'000	Leasehold improvements US$'000	Total US$'000
COST					
At 1 January 2018	34	359	13,651	1,232	15,276
Translation adjustment	(2)	(12)	(686)	(60)	(760)
Additions	–	5	1,585	101	1,691
Write-off	–	(2)	(3)	–	(5)
At 31 December 2018 and 1 January 2019	**32**	**350**	**14,547**	**1,273**	**16,202**
Translation adjustment	**(1)**	**4**	**(187)**	**(18)**	**(202)**
Additions	**–**	**5**	**492**	**70**	**567**
Write-off	**–**	**–**	**(12)**	**–**	**(12)**
At 31 December 2019	**31**	**359**	**14,840**	**1,325**	**16,555**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2018	24	127	5,750	374	6,275
Translation adjustment	(2)	(5)	(309)	(22)	(338)
Depreciation	3	55	1,455	179	1,692
Impairment (note 18)	–	9	394	39	442
Write-off	–	(2)	(3)	–	(5)
At 31 December 2018 and 1 January 2019	**25**	**184**	**7,287**	**570**	**8,066**
Translation adjustment	**–**	**3**	**(89)**	**(7)**	**(93)**
Depreciation	**3**	**52**	**1,430**	**168**	**1,653**
Write-off	**–**	**–**	**(12)**	**–**	**(12)**
At 31 December 2019	**28**	**239**	**8,616**	**731**	**9,614**
NET CARRYING AMOUNT					
At 31 December 2019	**3**	**120**	**6,224**	**594**	**6,941**
At 31 December 2018	7	166	7,260	703	8,136

18. GOODWILL

	2019	2018
	US$'000	US$'000
At 1 January	**–**	563
Provision for Impairment	**–**	(563)
At 31 December	**–**	–

For the purpose of impairment assessment, goodwill is allocated to the cash-generating unit of manufacturing and sales of power discrete semiconductors within the operating segment of "Sales of power discrete semiconductors" and is tested for impairment, together with other assets, mainly the property, plant and equipment, by the management as at the end of each reporting period by estimating the recoverable amount of this cash-generating unit based on value-in-use calculations. The calculations comprise cash flow projections based on the financial budgets approved by the management. The period covered by the financial budgets is three years. Cash flows beyond the three-year period are extrapolated using an estimated growth rate of 3%.

In respect of last year, the key assumptions used by the management in the value-in-use calculations of this cash-generating unit include:

	2018
Discount rate (pre-tax)	17.4%
Gross profit margin	16%–18%

These assumptions were determined based on past performance and management's expectations in respect of the market conditions as well as the economy and political changes which have impact on the Semiconductor Business. Sales were forecasted with reference to the annual sale plan provided by customers. Gross profit margin is forecasted based on the gross profit margin achieved in prior year adjusted for the expected change in market conditions and taking into account the annual sale plan of customers. The pre-tax discount rate used reflects the specific risks relating to the business and industry in which this cash-generating unit is engaged.

Based on the annual impairment assessment for the year ended 31 December 2018, the recoverable amount of the cash-generating unit of power discrete semiconductors business was estimated to be lower than its carrying amount by US$1,005,000 and accordingly, the entire amount of goodwill as at 31 December 2018 of US$563,000 was impaired in last year. The remaining amount of shortfall of US$442,000 was allocated to write down the carrying amount of the property, plant and equipment. The impairment loss recognised for the year ended 31 December 2018 of US$1,005,000 was mainly due to decrease in revenue and financial performance of power discrete semiconductors business over the forecast periods as a result of volatility of global economy, in particular, the China-US trade tension; and oversupply of semiconductor parts in the market.

19. LEASES

The Group entered into lease agreements for leasing of production workshop, warehouse, office premises and staff dormitory located in Taiwan, Hong Kong and the PRC. The periodic rent is fixed over the lease term, and the leases are negotiated for an initial period of two to three years.

Right-of-use Assets

The movements of right-of-use assets in respect of these leases are as follows:

	2019 **US$'000**
As at 1 January	**317**
Addition	**173**
Depreciation	**(345)**
Translation adjustment	**(3)**
As at 31 December	**142**

Lease Liabilities

The movements of lease liabilities in respect of these leases are as follows:

	2019 **US$'000**
At 1 January	**317**
Additions	**173**
Finance cost	**5**
Lease payments	**(350)**
Translation adjustment	**(3)**
At 31 December	**142**

Future lease payments are due as follows:

	Minimum lease payments **US$'000**	**Interest** **US$'000**	**Present value** **US$'000**
As at 31 December 2019			
Not later than one year	128	(3)	125
Later than one year and not later than two years	17	–	17
	145	**(3)**	**142**

19. LEASES (Continued)

Lease Liabilities (Continued)

	Minimum lease payments US$'000	Interest US$'000	Present value US$'000
As at 1 January 2019			
Not later than one year	321	(4)	317

The present value of future lease payments are analysed as:

	31 December 2019 US$'000	1 January 2019 US$'000
Current liabilities	**125**	317
Non-current liabilities	**17**	–
	142	317

20. INVENTORIES

	2019 US$'000	2018 US$'000
Raw materials	**1,878**	4,726
Work-in-progress	**1,600**	1,473
Finished goods	**458**	682
	3,936	6,881

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 US$'000	2018 US$'000
Trade receivables	**4,161**	4,050
Less: Provision for impairment	**–**	–
Trade receivables, net	**4,161**	4,050
Other receivables	**1,878**	42
Deposits and prepayments	**121**	148
	6,160	4,240

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

The ageing analysis of the trade receivables (net), based on invoice date, as of the end of the reporting period is as follows:

	2019	2018
	US$'000	US$'000
0 to 30 days	**1,614**	1,611
31 to 60 days	**1,404**	1,437
61 to 90 days	**812**	628
Over 90 days	**331**	374
	4,161	4,050

The Group normally allows a credit period of 30 to 60 days after the month of delivery to its trade customers. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 37(c).

22. CASH AND BANK BALANCES

Cash and bank balances include the following:

	2019	2018
	US$'000	US$'000
Cash at banks and in hand	**4,803**	4,305
Short-term bank deposit	**2,000**	–
	6,803	4,305

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short-term time deposits are made for period depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

The Group's short-term bank deposit amounting to US$2,000,000 as at 31 December 2019 was placed with bank with original maturity of one month and earn interest income at interest rate of 1.64% per annum.

23. TRADE AND OTHER PAYABLES

	2019 US$'000	2018 US$'000
Trade payables	**1,401**	1,051
Other payables and accruals	**1,207**	1,100
	2,608	2,151

The credit period granted by suppliers is normally 30 to 60 days after the month of delivery.

The ageing analysis of trade payables, based on invoice date, as of the end of the reporting period is as follows:

	2019 US$'000	2018 US$'000
0 to 30 days	**871**	594
31 to 60 days	**496**	394
61 to 90 days	**28**	57
Over 90 days	**6**	6
	1,401	1,051

24. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

The amounts due are unsecured, interest-free and repayable on demand.

25. BANK BORROWING

	2018 US$'000
Current liabilities	
Bank loan subject to repayment on demand clause and due for repayment within one year	600
	600

The annual interest rate of the Group's bank loan as at 31 December 2018 was 3.6% and was unsecured except for the corporate guarantee provided by the Company, denominated in US$ and bearing interest at London Inter-Bank Offered Rate plus certain margin. The Group had no bank borrowing as at 31 December 2019.

26. DEFERRED TAX

Details of the Group's deferred tax assets and liabilities recognised in the consolidated statement of financial position and their movements during the year are as follows:

	Accelerated tax depreciation US$'000	Impairment provision on property, plant and equipment US$'000	Other temporary differences US$'000	Total US$'000
At 1 January 2018	–	–	122	122
Translation adjustment	–	–	(3)	(3)
Credited/(Charged) to profit or loss (note 12)	–	103	(9)	94
At 31 December 2018 and 1 January 2019	**–**	**103**	**110**	**213**
Translation adjustment	**1**	**–**	**4**	**5**
Credited/(Charged) to profit or loss (note 12)	**(73)**	**(19)**	**57**	**(35)**
At 31 December 2019	**(72)**	**84**	**171**	**183**

Represented by:

	2019 US$'000	2018 US$'000
Deferred tax assets	**183**	213

As at 31 December 2019, the Group had unused tax losses of approximately US$1,671,000 (2018: US$644,000) available for offset against future profits. No deferred tax assets in respect of these tax losses have been recognised in the financial statements due to the unpredictability of future profits stream. Tax losses of the Group entities are available for offset against future taxable profits, in which US$549,000 (2018: US$644,000) may be carried forward indefinitely, whereas that amounting to US$1,122,000 (2018: nil) may be carried forward for ten years from the financial year when the corresponding loss was incurred.

Deferred tax liabilities of approximately US$77,000 (2018: US$58,000) have not been established for the withholding taxation that would be payable on the unremitted earnings of a PRC subsidiary as at 31 December 2019 as, in the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately US$1,544,000 as at 31 December 2019 (2018: US$1,160,000).

27. SHARE CAPITAL

The movements in the authorised and issued and fully paid share capital of the Company during the current and prior years are summarised as follows:

	Par value HK$	Number of ordinary shares	Amount HK$'000
Authorised:			
At 1 January 2018, 31 December 2018 and 31 December 2019	**0.01**	**3,800,000,000**	**38,000**
Issued and fully paid:			
At 1 January 2018	0.01	1,608,420,000	16,084
Shares issued upon exercise of the options granted by the Company in 2017	0.01	9,612,277	96
At 31 December 2018, 1 January 2019 and 31 December 2019	**0.01**	**1,618,032,277**	**16,180**

	2019 US$'000	2018 US$'000
Issued and fully paid share capital presented in the financial statements in US$	**2,085**	2,085

During the year ended 31 December 2018, a total of 9,612,277 ordinary shares with a par value of HK$0.01 each were issued as a result of exercise of the share options granted by the Company (note 29) at an aggregate consideration of approximately US$202,000. As a result of this, the share capital of the Company has increased by HK$96,000, equivalent to US$12,000, an amount of US$93,000 was debited to share option reserve and the balance of US$283,000 was credited to share premium account.

28. RESERVES

The Group

The following describes the nature and purpose of reserves within owner's equity.

(a) Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less expenses incurred in connection with the issue of the shares.

(b) Share option reserve

Share option reserve comprises the cumulated expenses recognised on granting of share options over the vesting period and is dealt with in accordance with the accounting policy in note 4.14.

28. RESERVES (Continued)

The Group (Continued)

(c) Merger reserve

Merger reserve arose from combining the financial statements of the companies now comprising the Group during the reorganisation in connection with the listing of shares of the Company on the GEM of the Stock Exchange in 2016.

(d) Capital contribution

Capital contribution as at 31 December 2019 and 2018 amounting to US$1,247,000 arose from the group reorganisation conducted in 2016 which included capitalisation of tax recharged by a fellow subsidiary amounting to US$31,000 and capitalisation of other balances due to fellow subsidiaries amounted to US$1,216,000.

(e) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy in note 4.12.

(f) Accumulated losses

Accumulated losses are the cumulative net gains and losses recognised in profit or loss.

The Company

Details of the movements in the Company's reserves are as follows:

	Share premium US$'000	Share option reserve US$'000	Accumulated losses US$'000	Total US$'000
At 1 January 2018	20,784	236	(3,298)	17,722
Loss and total comprehensive income for the year	–	–	(2,599)	(2,599)
Share-based payment (note 29)	–	53	–	53
Vested share options forfeited (note 29)	–	(2)	2	–
Shares issued upon exercise of the options granted by the Company (note 27)	283	(93)	–	190
At 31 December 2018 and 1 January 2019	**21,067**	**194**	**(5,895)**	**15,366**
Profit and total comprehensive income for the year	**–**	**–**	**1,258**	**1,258**
Share-based payment (note 29)	**–**	**14**	**–**	**14**
Vested share options forfeited (note 29)	**–**	**(2)**	**2**	**–**
At 31 December 2019	**21,067**	**206**	**(4,635)**	**16,638**

29. SHARE-BASED PAYMENT ARRANGEMENTS

Pursuant to the resolution passed by the shareholders of the Company on 19 September 2016, the adoption of the share option scheme of the Company (the “PFC Device Option Scheme”) was approved to enable the Company to grant options to eligible persons as incentives or rewards for their contributions or potential contributions to the Group. Eligible participants of PFC Device Option Scheme include the directors, employees, executives or officers of the Group and any suppliers, consultants, agents, advisers and related entities to the Group.

The PFC Device Option Scheme shall be valid and effective for a period of ten years commencing from the date on which the PFC Device Option Scheme becomes unconditional. The subscription price shall be such price as the board of directors of the Company in its absolute discretion shall determine, provided that such price will not less than the highest of: (a) the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (b) the average of the official closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the share of the Company. Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

On 22 March 2017, options to subscribe for an aggregate of 41,794,191 shares of the Company, were granted under PFC Device Option Scheme to certain directors, employees and consultants, which shall vest based on the vesting schedules specified in the offer documents of the respective grantees. Share options granted to non-employee participants are for their contribution to the Group in respect of providing services similar to those rendered to its employees.

The fair value of the share options granted on 22 March 2017 was HK$3,271,000, equivalent to approximately US$421,000. Such fair value was estimated by independent professional valuer at the date of grant using Binomial Model taking into account the terms and conditions of the options granted. The following table shows the significant inputs used in the model:

Dividend yield	0%
Historical volatility	43.032%
Risk-free interest rate	1.636%
Expected life of option	10 years

The historical volatility of a combination of companies of similar nature were used to estimate the historical volatility of the Company’s shares.

29. SHARE-BASED PAYMENT ARRANGEMENTS (Continued)

During the year ended 31 December 2019, share-based payment expense of US$14,000 was charged to profit or loss (2018: US$53,000). The movements of the share options granted under PFC Device Option Scheme during the years ended 31 December 2019 and 2018 are as follows:

			Numbers of options			
Grantee	**Date of grant**	**Exercise price HK$**	**As at 1 January 2019**	**Exercised**	**Forfeited**	**As at 31 December 2019**
Directors						
Mr. Hong	22 March 2017	0.165	**5,408,343**	**–**	**–**	**5,408,343**
Mr. Tang	22 March 2017	0.165	**2,800,000**	**–**	**–**	**2,800,000**
Other employees	22 March 2017	0.165	**10,059,821**	**–**	**(260,000)**	**9,799,821**
Consultants	22 March 2017	0.165	**1,960,000**	**–**	**–**	**1,960,000**
			20,228,164	**–**	**(260,000)**	**19,968,164**

			Numbers of options			
Grantee	Date of grant	Exercise price HK$	As at 1 January 2018	Exercised	Forfeited	As at 31 December 2018
Directors						
Mr. Hong	22 March 2017	0.165	5,408,343	–	–	5,408,343
Mr. Tang	22 March 2017	0.165	2,800,000	–	–	2,800,000
Other employees	22 March 2017	0.165	20,105,848	(9,472,277)	(573,750)	10,059,821
Consultants	22 March 2017	0.165	2,100,000	(140,000)	–	1,960,000
			30,414,191	(9,612,277)	(573,750)	20,228,164

The closing price of the Company's shares immediately before the date of grant of share options was HK$0.172.

The share options granted on 22 March 2017 are valid and effective for a period of 10 years from date of acceptance on 1 April 2017 subject to vesting requirements that the options shall be vested by stages which last for 9 months to 3.25 years.

During the year ended 31 December 2018, options to subscribe for 9,612,277 shares were exercised which resulted in the issue of 9,612,277 new ordinary shares of the Company and new capital of HK$96,000 (equivalent to US$12,000) (note 27). The weighted average closing price of the Company's shares immediately before the date on which the share options were exercised was HK$0.263.

During the year, options to subscribe for 260,000 shares (2018: 573,750 shares) were forfeited upon the resignation of the employees of the Group.

As at 31 December 2019, there were 19,968,164 shares (2018: 20,228,164 shares) issuable under outstanding share options granted under PFC Device Option Scheme. The weighted average remaining contractual life of these options was 7.25 years (2018: 8.25 years). Out of the total options outstanding as at 31 December 2019, options to subscribe for 19,195,691 shares (2018: 13,992,241 shares) vested and were exercisable by the grantees by giving notice in writing to the Company. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of additional 19,968,164 shares (2018: 20,228,164 shares) of the Company and additional share capital of HK$200,000 (equivalent to US$25,000) (2018: HK$202,000 (equivalent to US$26,000)).

No share options were granted or exercised during the year.

30. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2019 US$'000	2018 US$'000
ASSETS AND LIABILITIES			
Non-current asset			
Investment in a subsidiary		**13,392**	13,392
Current assets			
Other receivables, prepayments and deposits		**13**	29
Amounts due from subsidiaries		**4,507**	5,206
Cash and bank balances		**2,033**	56
		6,553	5,291
Current liabilities			
Other payables and accruals		**136**	146
Amounts due to subsidiaries		**1,086**	1,086
		1,222	1,232
Net current assets		**5,331**	4,059
Net assets		**18,723**	17,451
CAPITAL AND RESERVES			
Share capital	27	**2,085**	2,085
Reserves	28	**16,638**	15,366
Total Equity		**18,723**	17,451

On behalf of the directors

Chow Kai Chiu, David
Director

Hong James Man-Fai
Director

31. OPERATING LEASE COMMITMENTS

The Group as lessee

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 US$'000
Within one year	345

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has applied HKFRS 16 on 1 January 2019 and recognised lease liabilities relating to these leases in the consolidated statement of financial position in accordance with the policies set out in note 4.6A. Details of the Group's future lease payments as at 31 December 2019 are set out in note 19.

32. CAPITAL COMMITMENTS

	2019 **US$'000**	2018 US$'000
Commitments for acquisition of property, plant and equipment		
– Contracted for but not provided	**53**	395

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

	Bank borrowings US$'000 (note 25)
At 1 January 2018	858
Changes from cash flows:	
Proceeds from bank borrowings	1,274
Repayment of bank borrowings	(1,532)
Interest paid	(3)
Total changes from financing cash flows	(261)
Other changes:	
Interest expenses (note 10)	3
At 31 December 2018	**600**

	Lease liabilities **US$'000** (note 19)	**Bank borrowings** **US$'000** (note 25)
At 1 January 2019	**317**	**600**
Changes from cash flows:		
Proceeds from bank borrowings	**–**	**1,330**
Repayment of bank borrowings	**–**	**(1,930)**
Payment of principal element of lease liabilities	**(345)**	**–**
Interest paid	**–**	**(33)**
Payment of interest element of lease liabilities	**(5)**	**–**
Total changes from financing cash flows	**(350)**	**(633)**
Other changes:		
Interest expenses (note 10)	**5**	**33**
Recognition of lease liabilities	**173**	**–**
Translation adjustment	**(3)**	**–**
At 31 December 2019	**142**	**–**

34. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

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

Name	Related party relationship	Type of transaction	Transaction amount 2019 US$'000	2018 US$'000
Shell Electric (note (i))	Ultimate holding company	Rental and building management fee charged by the related party for office premises	**32**	32
SMC Electric (HK) Limited (note (ii))	Fellow subsidiary	Sales of finished goods to related party	**23**	–
SMC Multi-Media Trading Company Limited (note (iii))	Fellow subsidiary	Sales of finished goods to related party	**–**	23
佛山市順德區蜆華多媒體製品有限公司 (Foshan Shunde SMC Multi-Media Products Company Limited* ("Shunde Multi-Media")) (note (iii))	Fellow subsidiary	Rental and building management fee charged by the related party for production workshop with office facilities and staff dormitory	**152**	160
Shunde Multi-Media (note (iii))	Fellow subsidiary	Fee charged by the related party for provision of catering services	**4**	4
迅速資產管理(深圳)有限公司 (Xun Su Asset Management (Shenzhen) Limited*) (note (iii))	Fellow subsidiary	Rental charged by the related party for office premises and staff dormitory	**91**	89
廣東兆傲電子有限公司 (Guangdong Zhaoao Electronics Co., Ltd*) (note (iii))	Fellow subsidiary	Fee charged by the related party for provision of sub-contracting work service	**19**	–

* for identification purposes only

Notes:

(i) Shell Electric is the ultimate holding company of the Group. Mr. Yung, a non-executive director of the Company, is the ultimate beneficial owner of Shell Electric.

(ii) SMC Electric (HK) Limited is an indirect wholly-owned subsidiary of Shell Electric.

(iii) SMC Multi-Media Trading Company Limited, Shunde Multi-Media, Xun Su Asset Management (Shenzhen) Limited and Guangdong Zhaoao Electronics Co., Ltd. are indirect wholly-owned subsidiaries of Shell Electric.

34. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

The transactions were conducted on mutually agreed terms.

On 1 January 2019, the Group recognised right-of-use assets (note 19) and lease liabilities (note 19) in relation to the above-mentioned lease agreements for production workshop with office facilities, office premises and staff dormitory following the requirement of HKFRS 16. During the year, the total undiscounted rental payments under these lease agreements were approximately US$230,000.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management were as follows:

	2019	2018
	US$'000	US$'000
Salaries, allowances and other benefits	**335**	398
Share-based payment expense	**7**	28
Contributions to defined contribution retirement plan	**5**	8
	347	434

35. CAPITAL MANAGEMENT

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

The Group monitors its capital structure on the basis of gearing ratio i.e. net debt to equity. Net debt includes borrowings and advances from group companies except for those which would subsequently be capitalised, less cash and bank balances. Equity represents total equity of the Group.

The directors of the Company actively and regularly reviews and manages the Group's capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholders' returns. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue new shares, return capital to shareholders, raise new debts or sells assets to reduce debt.

The gearing ratios at the end of the reporting period were as follows:

	2019	2018
	US$'000	US$'000
Bank borrowing	**–**	600
Amounts due to fellow subsidiaries	**–**	170
Less: cash and bank balances	**(6,803)**	(4,305)
Net debt	**N/A**	N/A
Total equity	**21,349**	22,922
Gearing ratio	**N/A**	N/A

The Group targets to maintain a gearing ratio to be in line with expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the year.

36. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amounts of financial assets and liabilities:

	2019 US$'000	2018 US$'000
Financial assets at amortised cost		
– Trade and other receivables and deposits	**5,994**	4,115
– Amount due from a fellow subsidiary	**7**	2
– Cash and bank balances	**6,803**	4,305
	12,804	8,422
Financial liabilities at amortised cost		
– Trade and other payables	**2,598**	2,140
– Amounts due to fellow subsidiaries	**76**	170
– Bank borrowing	**–**	600
– Lease liabilities	**142**	–
	2,816	2,910

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, deposits, cash and bank balances, trade and other payables, bank borrowing, lease liabilities and balances with related companies. Due to their short-term nature, the carrying values of these financial instruments approximate their fair values.

(b) Financial instruments measured at fair value

As at 31 December 2018 and 2019, the Group did not have any financial instruments measured at fair value and accordingly, no analysis on fair value hierarchy is presented.

37. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks which comprise market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors of the Company and senior management meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

37. FINANCIAL RISK MANAGEMENT (Continued)

Generally, the Group employs a conservative strategy regarding its financial risk management. As the directors consider that the Group's exposure to financial risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The most significant risks to which the Group is exposed to are described below:

(a) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong, the PRC and Taiwan. The functional currencies of the Company and its subsidiaries are mainly US$, RMB and TWD with certain of their business transactions being settled in foreign currencies including US$, RMB and HK$. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily US$, RMB and HK$, against the functional currency of the Company and the relevant group entities. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group continues to conduct its sales mainly in US$ and TWD and make payments either in US$, HK$, RMB or TWD. The directors closely monitor the volatility of the exchange rates of US$ against RMB and TWD, to which the Group has major exposure. All in all, the Group's risk exposure to foreign exchange rate fluctuations remains not material.

The overall exposure in respect of the carrying amounts of the Group's foreign currency denominated financial assets and liabilities in net position as at the end of the reporting period are as follows:

	2019 **US$'000**	2018 US$'000
Net monetary assets/(liabilities) denominated in foreign currency		
US$	**3,163**	(170)

As HK$ is pegged to US$, the Group does not have material currency risk arising from fluctuation of exchange rate between HK$ and US$ and thus the relevant balances denominated in HK$ or US$ are excluded from the Group's net position in the above table. The following sensitivity analysis, determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year, demonstrates the Group's exposure to a reasonably possible change in US$ against the functional currencies of RMB and TWD on the Group's net monetary assets or liabilities position denominated in US$ as at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	Decrease/(Increase) in loss for the year and accumulated losses	
	2019 **US$'000**	2018 US$'000
US$ appreciated by 5% (2018: 5%)	**123**	(1)

The changes in the exchange rates do not affect the Group's other components of equity. The same percentage depreciation in US$ against the functional currencies of the respective group companies would have the same magnitude on the result of the Group but of opposite effect.

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from bank borrowings and bank deposits.

Bank borrowings arranged at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's bank borrowings bore interest at variable rates. The interest rates and repayment terms of the bank borrowings outstanding at the end of the reporting period are disclosed in note 25.

The Group's bank balances also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on the bank balances. The directors of the Company consider the Group's exposure to interest rate risk in respect of bank balances is not significant as interest-bearing bank deposits are within short maturity periods in general.

The Group did not have bank borrowing as at 31 December 2019. The following sensitivity demonstrates the Group's exposure to a reasonably possible change in interest rates on its floating rate bank borrowings as at 31 December 2018 with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	2018 US$'000
(Increase)/Decrease in loss for the year and accumulated losses	
+50 basis point ("bp")	(3)
–10 bp	1

The changes in interest rates do not affect the Group's other components of equity. The above sensitivity analysis is prepared based on the assumption that bank borrowings outstanding at 31 December 2018 remain outstanding throughout the 2018 financial year. The assumed changes in interest rate are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting period.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk is primarily attributable to its trade receivables, other receivables including amount due from a fellow subsidiary and bank balances. The maximum exposure to credit risk of the Group's financial assets at the end of the reporting period is their carrying amounts.

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

In respect of trade receivables, the Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with creditworthy counterparties. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Credit terms are granted to new customers after creditworthiness assessment. The Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management assesses the collectability of the receivables regularly for the determination of any loss allowance for the receivables by taking into account of the customers' financial condition, current creditworthiness, past settlement history, business relationship with the Group and other factors such as market conditions.

In respect of other debt financial asset, the Group measures loss allowance under general approach. The loss allowance is based on 12-month ECL. However, when there has been a significant increase in credit risk since origination, the loss allowance will be based on the lifetime ECL.

The Group assesses whether there has been a significant increase in credit risk for exposure since initial recognition on an ongoing basis throughout the year. To assess whether there has been a significant increase in credit risk, the Group compares the risk of default occurring on receivables over the expected life between the reporting date and the date of initial recognition. For this purpose, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This include both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition.

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtors' ability to meet its debt obligations;

– actual or expected significant changes in the operating results of the debtors;

– significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of the debtor in the Group; and

– actual or expected significant adverse change in the regulatory, economic, or technological environment in which the debtor operates that results in a significant change in the customers' ability to meet its debt obligations.

The Group presumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is more than 90 days past due.

The Group assesses whether a financial asset is credit-impaired at the end of the reporting period. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter into bankruptcy or other financial reorganisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk (Continued)

The Group measures loss allowance for trade receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix by reference to past default experience of the debtor and current market condition in relation to each debtor's exposure and time value of money where appropriate. The ECL also incorporate forward looking information with reference to general macroeconomic conditions that may affect the liability of the debtors to settle the trade receivables. Trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The Group has assessed that the ECL rate for trade receivables as at 31 December 2018 and 31 December 2019 was not significant. Accordingly, no loss allowance for trade receivables was recognised in the respective years. In addition, the Group has assessed that the ECL rate for other debt financial assets as at 31 December 2018 and 31 December 2019 was not significant and thus no loss allowance is made for other debt financial assets.

In respect of the bank balances, the Group's exposure to credit risk is limited because majority of the bank balances and short-term bank deposits are deposited in reputable banks, for which the Group considers to have low credit risk. There was no history of default in relation to these financial institutions.

The credit policies have been consistently applied and are considered to be effective in limiting the Group's exposure to credit risk to a desirable level.

(d) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables, amounts due to fellow subsidiaries and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain a prudent liquidity risk management which is to maintain sufficient cash and cash equivalents as well as to make available of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risk.

The following table below analyses the remaining contractual maturities of the Group's financial liabilities at the end of the reporting period which are based on contractual undiscounted cash flows (interest payments computed using contractual rates or, if floating, based on rate current at the end of reporting period) at the earliest date the Group may be required to pay.

37. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

Specifically, for bank loans which contain repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the bank was to invoke its unconditional rights to call the loans with immediate effect. The maturity analysis for other financial liabilities is prepared based on the scheduled repayment dates.

	Within one year or on demand US$'000	**One to Two years** US$'000	**Total contractual undiscounted cash flows** US$'000	**Carrying amount** US$'000
As at 31 December 2019				
Trade and other payables	**2,598**	**–**	**2,598**	**2,598**
Amounts due to fellow subsidiaries	**76**	**–**	**76**	**76**
Lease liabilities	**128**	**17**	**145**	**142**
	2,802	**17**	**2,819**	**2,816**
As at 31 December 2018				
Trade and other payables	2,140	–	2,140	2,140
Amounts due to fellow subsidiaries	170	–	170	170
Bank loan subject to repayment on demand clause	600	–	600	600
	2,910	–	2,910	2,910

The following table summaries the maturity analysis of bank loan with repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that the bank loan will be repaid in accordance with the scheduled repayment date set out in the loan agreements.

	Within one year or on demand US$'000	**Total contractual undiscounted cash flows** US$'000	**Carrying amount** US$'000
As at 31 December 2018			
Bank loan	601	601	600

FINANCIAL SUMMARY

For the year ended 31 December 2019

A summary of results and of assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements in this annual report and the prospectus of the Company, are as follows:

RESULTS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	**17,997**	23,354	27,617	22,840	18,095
(Loss)/Profit before income tax	**(1,315)**	(1,067)	866	390	1,136
Income tax expense	**(110)**	(23)	(306)	(472)	(449)
(Loss)/Profit for the year attributable to owners of the Company	**(1,425)**	(1,090)	560	(82)	687

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	**24,195**	25,851	29,074	31,514	21,588
Total liabilities	**(2,846)**	(2,929)	(4,394)	(9,294)	(16,117)
Net assets	**21,349**	22,922	24,680	22,220	5,471