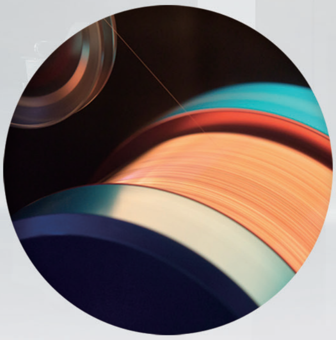
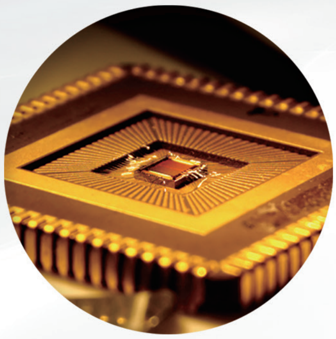
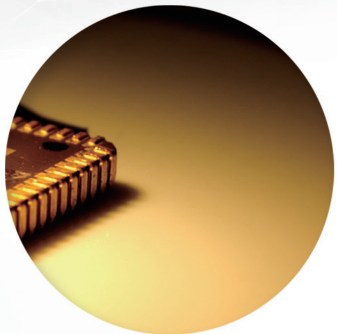


# 2019
ANNUAL REPORT





nichetech

# NICHE-TECH GROUP LIMITED
# 駿碼科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8490)

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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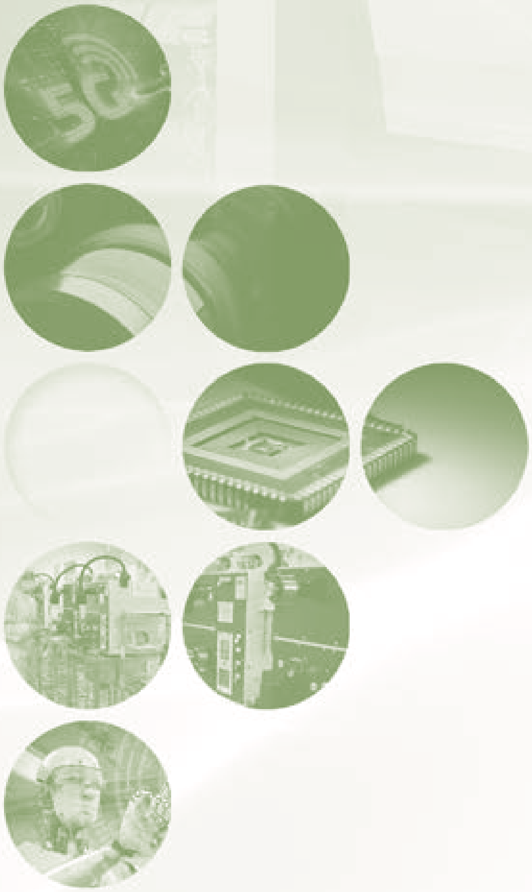
*This report, for which the board (the "Board") of directors (the "Directors") of Niche-Tech Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules")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

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Director

Mr. Ma Yung King Leo

### Independent Non-executive Directors

Professor Ng Wang Wai Charles
Mr. Tai Chun Kit
Mr. Poon Lai Yin Michael *(appointed on 28 June 2019)*
Dr. Cheng Faat Ting Gary *(resigned on 28 June 2019)*

## AUDIT COMMITTEE

Mr. Poon Lai Yin Michael *(Chairman)*
Professor Ng Wang Wai Charles
Mr. Tai Chun Kit

## REMUNERATION COMMITTEE

Professor Ng Wang Wai Charles *(Chairman)*
Mr. Chow Bok Hin Felix
Mr. Tai Chun Kit
Mr. Poon Lai Yin Michael

## NOMINATION COMMITTEE

Mr. Chow Bok Hin Felix *(Chairman)*
Professor Chow Chun Kay Stephen
Professor Ng Wang Wai Charles
Mr. Tai Chun Kit
Mr. Poon Lai Yin Michael

## COMPANY SECRETARY

Mr. Tsoi Kin Lung *(appointed on 28 June 2019)*
Mr. Koo Wing Yip *(resigned on 28 June 2019)*

## AUTHORISED REPRESENTATIVES

Mr. Chow Bok Hin Felix
Mr. Tsoi Kin Lung

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## LEGAL ADVISER

Kwok Yih & Chan

## COMPLIANCE ADVISER

Titan Financial Services Limited

## AUDITOR

Deloitte Touche Tohmatsu
*Registered Public Interest Entity Auditors*

## PRINCIPAL BANKERS

Bank of Communication Co., Ltd., Hong Kong Branch
Hang Seng Bank Limited
United Overseas Bank Limited

## REGISTERED OFFICE

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG SHARE REGISTRAR

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

## WEBSITE

http://www.nichetech.com.hk

## STOCK CODE

8490

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Niche-Tech Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), I am delighted to present the annual results of the Group for the year ended 31 December 2019.

## OVERVIEW

It was a challenging year for global economies in 2019, as the Sino-U.S. trade tensions continued and brought uncertainties as well as negative impact to the global industries. Despite the challenges, the Group reported strong business performance during the year, benefiting from its sustained efforts on customer base expansion and product mix enhancement.

During the year ended 31 December 2019 (the "**Review Year**" or "**2019**"), the Group achieved a 15.5% increase in revenue to approximately HK$213.0 million from approximately HK$184.4 million for the year ended 31 December 2018 (the "**Previous Year**" or "**2018**"). Gross profit increased 2.1% to approximately HK$41.7 million. Loss for the year was HK$684,000.

During the Review Year, the Group's bonding wire sector recorded outstanding performance, which is contributed by the significant growth of gold and silver alloy bonding wires business. The Group's encapsulant products also reported stable improvement in its customer base expansion. Besides, the Group has continued to develop and launch new products to meet the requirements of customers.

## FORWARD

In the long run, the demand for high efficiency power electronic products is expected to grow outstandingly, with the development of 5G networks, AI, cloud computing, Industry 4.0 and new energy vehicles. Especially, the People's Republic of China (the "PRC" or "China") government has made great and constant support on the deployment of 5G networks, which will drive the further growth of semiconductor industry in the country and bring new opportunities to the semiconductor packaging materials industry. Hence, the Directors remain positive on the prospects of semiconductor packaging market, as well as the Group's long-term development.

Looking ahead, the Group will continue to implement its business plan prudently by enhancing its R&D capability and develop its product mix. The Group's new products for mini-LED packaging are well-adopted by its customers and are expected to make significant contribution to the Group in mid-2020. In particular, the Group will focus on promotion of Liquid Molding Epoxy for mini-LED this year. In the meantime, it will make great efforts to develop bonding wire products and other advanced materials for AI and 5G industry, so as to grasp the opportunities arising from the latest trend in the industry.

The Directors believe that the Group's established position in the electronic packaging materials industry, together with its competitive strengths and flexible business strategies, will allow it to pursue more opportunities in the market, drive continuous revenue growth and create maximum return to the shareholders of the Company (the "**Shareholders**").

## APPRECIATION

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

**Mr. Chow Bok Hin Felix**
*Executive Chairman and Executive Director*

Hong Kong, 11 May 2020

## BUSINESS REVIEW

In 2019, despite the uncertainties from the global macro-economic environment as a result of the continuing trade tension between the United States of America and the PRC, the PRC continued to be under the world's spotlight and maintained a moderate growth. As an established semiconductor packaging materials manufacturer, the Group continues to sell products directly to more than 400 customers, including renowned manufacturers of LEDs, camera modules and ICs primarily in the PRC.

During the Review Year, in line with the constant growth of semiconductor product industry in PRC, the demand for domestic semiconductor packaging materials has witnessed a stable growth. By implementing its planned growth strategies, the Group's revenue has achieved significant growth especially for gold and silver alloy bonding wires. During the Review Year, the Group also focused on innovation of materials for advanced semiconductors which could be applied to AI and 5G industries.

## FUTURE STRATEGIES AND PROSPECTS

According to SEMI, the global semiconductor equipment sales was estimated to reach US$57.6 billion in 2019, down by 10.6% from US$64.4 billion in 2018. However, the market is expected to recover gradually in 2020 and reach a new record high of US$66.8 billion in 2021. China will become the largest market for semiconductor equipment with the sales approaching approximately US$16.0 billion in 2021. Under this favourable background, the demand for bonding wires and semiconductor packaging related encapsulants are forecasted to experience an outstanding growth.

As a reputable technology-focused manufacturer, the Group is well equipped with the capabilities of keeping abreast of the latest industry trend through continuous R&D capabilities. In 2020, the Group will continue to develop advanced semiconductor packaging materials and enrich its product mix, so as to catch the opportunities arising from the expected market recovery.

In 2020, the Group will vigorously promote the Liquid Molding Epoxy for mini-LED, which was pioneered by the Group and was successfully trial produced in several famous LED display packaging companies in 2019. It is expected that the Group will receive regular orders in the second quarter of 2020 which will make great contribution to the Group's revenue. In addition, the Group is launching two new products of Die Attach Adhesive, namely LED Insulation Adhesive and LED Electrical Conductive Adhesive, which can be used for semiconductor and 5G industries after certain adjustment. In view of the rapidly growing 5G networks, the Group is putting more resources on developing upstream packaging materials for 5G industry, and is expected to make it become another growing momentum for the Group.

On 11 September 2019, the Company entered into a non-legally binding memorandum with one of its customers and a professor from National Cheng Kung University in Taiwan for the evaluation of a specialised uncoated copper alloy wire product and relevant raw material, and the manufacture of such copper wire product. In the future, the Group will continue to broaden its product portfolio in its bonding wire segment by strengthening its R&D on its wire products and/or acquisition of knowhow and technologies.

Looking ahead, the Group will continue to carry out its proven business strategies, and expand customer base by delivering high-quality and advanced products to meet their changing needs. In addition, to cope with the macroeconomic uncertainties aroused by the continuous Sino-U.S. trade tensions and the global breakout of COVID-19 in the beginning of 2020, the Group will take effective cost control measures, such as streamlining the sales process and improving production efficiency, in order to raise the economic efficiency of the Group and sustain its long-term business growth.

## FINANCIAL OVERVIEW

### Revenue

The Group's revenue principally represents income derived from its main products, namely bonding wire and encapsulant. During the Review Year, the Group recorded a revenue of approximately HK$213.0 million, up from approximately HK$184.4 million for Previous Year. The revenue of bonding wire products recorded an increase of 19.8% to approximately HK$170.9 million from approximately HK$142.6 million for the Previous Year, mainly due to the increase in the sales volume. The revenue of encapsulant products amounted to approximately HK$27.1 million (2018: approximately HK$28.7 million).

### Cost of Sales and Gross Profit

The Group's cost of sales mainly comprises of direct material costs, direct labor costs and manufacturing overhead. During the Review Year, the Group recorded cost of sales of approximately HK$171.3 million (2018: approximately HK$143.6 million). The increase was due to the increase in sales.

The gross profit of the Group slightly grew from approximately HK$40.8 million for the Previous Year to approximately HK$41.7 million for the Review Year. Gross profit margin decreased to approximately 19.6% for the Review Year from approximately 22.1% for the Previous Year, mainly due to the decrease in the average selling price of encapsulant products.

### Other Income, Gains and Losses

Other income, gains and losses recorded a profit of approximately HK$2.9 million for the Review Year (2018: approximately HK$3.9 million). The drop was mainly resulted from the decrease in net foreign exchange gains. During the Review Year, the Group recognized net foreign exchange gain of approximately HK$0.3 million as compared to the net foreign exchange gain of approximately HK$1.6 million recorded in the Previous Year.

### Expenses

Selling and distribution expenses increased to approximately HK$12.1 million during the Review Year (2018: approximately HK$10.9 million) which was in line with the increase in revenue.

Administrative expenses for the Review Year increased by approximately HK$7.9 million to approximately HK$27.4 million (2018: approximately HK$19.5 million), mainly due to: (i) the increase in staff costs by approximately HK$3.9 million as a result of the increase in headcounts; (ii) the increase in recurring legal and professional compliance fees by approximately HK$2.0 million; and (iii) the increase in depreciation of plant and equipment by approximately HK$0.5 million as a result of the increase in additions of plant and equipment after the listing (the "**Listing**") of the shares (the "**Shares**") of the Company.

There were no non-recurring listing expenses for the Review Year (2018: approximately HK$10.4 million).

Finance costs were increased significantly to approximately HK$2.4 million (2018: approximately HK$0.7 million), mainly due to: (i) the recognition of interest on lease liability of approximately HK$0.8 million as a result of the adoption of new accounting standard and (ii) the increase in bank borrowings.

### (Loss) profit for the Year

Summing up the combined effects of the foregoing, Loss attributable to owners of the Company for the Review Year was approximately HK$684,000 (2018: profit of approximately HK$350,000, or profit of approximately HK$10.8 million excluding the effect of the non-recurring listing expense of approximately HK$10.4 million).

## HUMAN RESOURCES MANAGEMENT

As at 31 December 2019, the Group employed 217 full-time employees. The remuneration of employees is presented in Note 9 to the consolidated financial statements. Based on the Group's remuneration policy, the employees' remuneration is determined with reference to the experience and qualifications of the individual's performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

## FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

During the Review Year, the Group took steps to expand and upgrade its production facilities in all its products across the board. The expansion and upgrading involved a total investment of HK$13.2 million, for which the Group expended HK$4.7 million covering all the production facilities and Chows Global Limited (a company controlled by the Company's controlling shareholders and directors Mr. Chow Bok Hin Felix and Professor Chow Chun Kay Stephen) contributed HK$8.5 million towards the Group's G&S bonding wires production facilities pursuant to a technology implementation and license agreement dated 6 September 2017 and which was disclosed on page 187 of the Company's prospectus dated 17 May 2018 (the "**Prospectus**"). The Group's G&S bonding wires production improved from an average production yield of approximately 40% in Q1 2019 to over 80% in Q4 2019, and improved from an average production efficiency from approximately 30km/h in Q1 2019 to 70km/h in Q4 2019.

The Group finances its operations primarily through cash generated from operating activities and interest-bearing bank borrowing. The Group recorded net current assets of approximately HK$134.8 million as at 31 December 2019 (31 December 2018: approximately HK$145.2 million).

As at 31 December 2019, the Group's current ratio was approximately 2.9 (31 December 2018: approximately 6.0) and the Group's gearing ratio calculated based on dividing the total borrowings at the end of the Review Year by the total equity at the end of the Review Year was approximately 21.8% (31 December 2018: approximately 5.8%). The main reason for the above was that additional bank borrowings were drawn to provide additional funding to the Group for business expansion during the Review Year.

The Group's variable-rate bank borrowings carried interests at 2.80% over Hong Kong Interbank Offered Rate per annum. The effective interest rates was 4.84% as at 31 December 2019 (2018: 4.93%).

The Group's fixed-rate borrowings carried interests at effective rates (which were also the contracted rates) at 4.04% per annum as at 31 December 2019 (2018: nil).

As at 31 December 2019, the Group's bank borrowings amounted to approximately HK$50.4 million (31 December 2018: approximately HK$13.8 million) were secured by corporate guarantee provided by the Company.

As at 31 December 2019, the Group had total bank facilities of HK$114.5 million (31 December 2018: HK$80 million).

As at 31 December 2019, the capital structure of the Group consisted of equity attributable to owners of the Company of approximately HK$231.4 million, comprised of issued share capital and reserves.

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

## ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There were no material acquisitions and disposals of subsidiaries, associates and joint ventures for the Review Year.

## EXPOSURE TO FOREIGN EXCHANGE RISK

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

## CHARGE ON ASSETS

As at 31 December 2019, there was no significant pledge on the Group's assets (31 December 2018: Nil).

## DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

## CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities or guarantees.

## SEGMENT INFORMATION

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

## SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

During the Review Year, the Group has not made any significant investments or material acquisitions and disposal of subsidiaries. Save as disclosed in this annual report, there was no plan for other material investments or additions of capital assets during the Review Year.

## EVENT AFTER THE REPORTING PERIOD

Saved as disclosed in note 37 to the consolidated financial statements,the Directors are not aware of any other significant event after the reporting period for the Group to the date of this report.

## COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following table is a comparison between the Group's business objectives as set out in the Prospectus and the Group's actual business progress for the period from the Listing date (i.e. 30 May 2018) (the "**Listing Date**") to 31 December 2019.

| Business objectives and business plan stated in Prospectus | Actual business progress up to 31 December 2019 |
|---|---|
| **Expand production capacity and upgrade manufacturing facilities** | |
| – Acquire machineries and equipment and upgrade manufacturing facilities for new production lines | The Group upgraded and expanded the G&S bonding wire production line during the second quarter of 2019, which commenced trial run during the second half of 2019. |
| – Acquire machineries and equipment for quality control | The Group acquired and installed certain equipment to enhance the quality control over the production process and finished products' inspection for both bonding wire and encapsulant products during the Review Year. |
| **Devote R&D resources** | |
| – Acquire machineries and equipment for R&D enhancement | The Group had purchased certain machineries and equipment for the improvement of existing R&D facilities during the Review Year. |
| – Engage external consultants for R&D projects | The Group engaged an assistant professor from Anhui University of Technology as the R&D consultant to assist in the R&D activities for the new encapsulant projects. The Group also engaged two professors from National Cheng Kung University (Taiwan) and an expert in metal materials as the R&D consultants to assist in the R&D activities for the new bonding wire projects. |
| **Increase sales and marketing activities** | The Group attended SEMICON China Exhibition 2019 in Shanghai organised by SEMI and CECC in March 2019. The Group also engaged a personnel relation advisor who is responsible for branding and digital marketing work. |
| **General working capital** | The Group relocated its headquarter to Hong Kong Science Park and hired R&D expert and related personnel after the Listing. Additional working capital was required as a result of increase in production capacity. |

## USE OF PROCEEDS FROM THE LISTING

The Shares were successfully listed on GEM of the Stock Exchange on the Listing Date. The net proceeds from the Listing received by the Company were approximately HK$83.5 million (after deduction of Listing expenses). The net proceeds are intended to be used in accordance with the proposed implementation plans as disclosed under the section headed "Statement of Business Objectives and Use of Proceeds" in the Prospectus. During period from the Listing Date to 31 December 2019, the net proceeds had been utilised as follows:

| | Actual net proceeds from the Listing *HK$ million* | Amount utilised up to 31 December 2019 *HK$ million* | Balance as at 31 December 2019 *HK$ million* | Expected timeline for utilizing the remaining unused net proceeds *(Note 1)* |
|---|---|---|---|---|
| **Expand production capacity and upgrade manufacturing facilities** | | | | |
| – Acquire machineries and equipment and upgrade manufacturing facilities for new production lines | **41.9** | **10.2** ***(Note 2)*** | **31.7** | **From 1.1.2020 to 31.12.2020** |
| – Acquire machineries and equipment for quality control | **3.4** | **3.4** | **–** | **–** |
| **Devote R&D resources** | | | | |
| – Acquire machineries and equipment for R&D enhancement | **19.5** | **8.2** | **11.3** | **From 1.1.2020 to 31.12.2020** |
| – Engage external consultants for R&D projects | **5.9** | **0.9** | **5.0** | **From 1.1.2020 to 31.12.2020** |
| **Increase sales and marketing activities** | **5.9** | **2.3** | **3.6** | **From 1.1.2020 to 31.12.2020** |
| **General working capital** | **6.9** | **6.9** | **–** | **–** |
| **Total** | **83.5** | **31.9** ***(Note 2)*** | **51.6** | |

As at 31 December 2019, approximately HK$31.9 million out of the net proceeds from the Listing had been used. The majority of the unused net proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong.

*Notes:*

1. The expected timeline for utilizing the remaining unused net proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

2. The amount utilised up to 31 December 2019 has been adjusted downward from the disclosure in the 2019 Interim Report as a result of certain technical support services fees having been recharged to a related company.

## EXECUTIVE DIRECTORS

**Mr. CHOW Bok Hin Felix (周博軒) ("Mr. Chow")**, aged 38, is the co-founder of the Group, and was appointed as an executive Director and the executive chairman on 21 February 2017 of the Board. He is primarily responsible for the overall management, strategic planning, operations and development of the Group. Mr. Chow is the son of Professor Chow, an executive Director.

Mr. Chow has over 17 years of experience in the electronics materials industry. He founded the Group in April 2006 and was appointed as a director of Niche-Tech Kaiser (Shantou) Limited ("**Niche-Tech Shantou**"). Mr. Chow was listed as one of the 200 Most Promising Young Chiu Chow Entrepreneurs in 2012. He was appointed as a Standing Committee member of the Shantou Provincial Committee of the Chinese People's Political Consultative Conference in 2012, and a Council Member of the Hong Kong Productivity Council in 2015, and also a member of China Overseas Friendship Association.

Mr. Chow obtained a Bachelor of Arts degree from the University of Southern California in the United States in May 2011. He also furthered his studies by completing an Entrepreneurial Masters Programme hosted by the Massachusetts Institute of Technology Enterprise Forum and Entrepreneurs' Organisation in May 2009. He is currently studying the Doctor of Business Administration (DBA) Programme at the City University of Hong Kong.

**Professor CHOW Chun Kay Stephen (周振基) ("Professor Chow")**, *GBS, SBS, BBS, JP*, aged 65, is the co-founder of the Group and was appointed as an executive Director on 21 February 2017. He is primarily responsible for the overall strategic planning and development of the Group. Professor Chow is the father of Mr. Chow, an executive Director and the executive chairman of the Board.

Professor Chow has over 38 years of experience in the electronics materials industry. He founded the Group in April 2006 and was appointed as a director of Niche-Tech Shantou. He is also the director of Niche-Tech Holdings Limited. Professor Chow served as the president of the Chiu Chow Chamber of Commerce from 2012 to 2014, and the chairman of the Tung Wah Group of Hospitals from 2001 to 2002. Professor Chow has also been the council chairman of the Hong Kong Academy for Performing Arts since 2016.

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

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

**Mr. SHI Yiwu (石逸武)**, aged 37, is an executive Director on 6 September 2017 and the general manager of Niche-Tech Shantou. He is primarily responsible for the overall management, sales and marketing of our production factory in Shantou.

Mr. Shi has over 13 years of experience in the electronics materials industry. He joined the Group as a R&D project supervisor of Niche-Tech Shantou in May 2007. He was then promoted to deputy manager of the R&D department of Niche-Tech Shantou in February 2008 and R&D director of the chemical department of Niche-Tech Shantou in December 2014. Mr. Shi was further promoted to the general manager of Niche-Tech Shantou in May 2016 and has been holding this position since then. Prior to joining the Group, Mr. Shi had worked as a processing engineer in Shengyi Technology Co., Ltd. from July 2005 to January 2007.

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

## NON-EXECUTIVE DIRECTOR

**Mr. MA Yung King Leo (馬雍景) ("Mr. Leo Ma")**, with former name Ma Hiu Chun Elton (馬曉晉), aged 31, was appointed as a non-executive Director on 6 September 2017. He is primarily responsible for the overall strategic planning of the Group. He is a grandson of Mr. Ma Ah Muk (馬亞木), a substantial shareholder of the Company.

Mr. Leo Ma first joined Koon Wing Motors Limited, the largest operator of green minibuses in Hong Kong, in January 2011, where he was responsible for minibus fleet management. He left Koon Wing Motors Limited in March 2012 and re-joined the company in October 2016 and is currently its director. He co-founded Trinity Insurance (International) Agency Limited, a company principally engaged in the provision of insurance agency services in Hong Kong, in December 2011. He has also been a director of Corporate Icon Limited, a company principally engaged in property holding since October 2011. Between May 2013 and May 2014, Mr. Leo Ma worked as a product development engineer in Niche-Tech (Hong Kong) Limited. Mr. Leo Ma is an executive director of IWS Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8441) since March 2018.

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Professor NG Wang Wai Charles (吳宏偉)**, aged 58, was appointed as an independent non-executive Director on 8 May 2018. He is primarily responsible for providing independent advice to the Board.

Professor Ng has been a chair professor of Civil and Environmental Engineering since 2011 and the associate vice-president for Research and Graduate Studies between 2014-2017 and for Research and Development from 2017 to date at The Hong Kong University of Science and Technology ("**HKUST**") since 2014. After obtaining his Doctorate of Philosophy degree from the University of Bristol in the United Kingdom in January 1993, he joined the University of Cambridge as a post-doctoral research associate between 1993 and 1995. He returned to Hong Kong joining HKUST as an assistant professor in 1995 and became a chair professor in 2011.

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

**Mr. TAI Chun Kit (戴進傑)**, aged 37, was appointed as an independent non-executive Director on 8 May 2018. He is primarily responsible for providing independent advice to the Board.

Mr. Tai has extensive experience in marketing retail management and brand development. Mr. Tai has been an executive director of Hong Kong Food Investment Holdings Limited ("**HKFIHL**"), a company listed on the Main Board of the Stock Exchange (stock code: 60), since 2013. He is responsible for the new business planning and development of HKFIHL. Mr. Tai has also been the managing director of Four Seas Mercantile Holdings Limited ("**FSMHL**"), a company listed on the Main Board of the Stock Exchange (stock code: 374) since 2018. FSMHL is a food enterprise with trading, manufacturing and retailing of snack foods and drinks, and restaurants in Hong Kong and the PRC. Mr. Tai is responsible for new business planning and the development of FSMHL's business associated with overseas brands. Mr. Tai joined FSMHL in 2004 and was appointed as the executive director in 2017.

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

**Mr. POON Lai Yin, Michael (潘禮賢) ("Mr. Poon")**, aged 48, was appointed as an independent non-executive Director of the Company on 28 June 2019, and is the chairman of the Audit Committee and a member of the Remuneration Committee and a member of Nomination Committee of the Company. Mr. Poon has over 20 years of experience in financial reporting, business advisory, auditing, taxation, accounting, merger and acquisition. From March 1995 to February 1997, he worked in Chan Chak Chung & Co. and his last position was audit senior. From March 1997 to June 1999, he worked in Ho & Au Yeung and his last position was audit semi-senior. From November 2000 to March 2002 he served as senior accountant in Arthur Anderson & Co., which was merged into PricewaterhouseCoopers in 2002. Mr. Poon obtained a bachelor's degree in administrative studies from York University, Canada in June 1995 and a master's degree in practicing accounting from Monash University, Australia in July 1998. Mr. Poon has been a fellow member of HKICPA since July 2009, and a member with CPA Australia since March 2000 respectively. Mr. Poon passed the qualification examination of Asset Management Association of China (中國證券投資基金業協會從業資格考試) in 2016. Mr. Poon has been an independent non-executive director of China Uptown Group Company Limited (the shares of which are listed on the main board of the Stock Exchange with stock code: 2330) since November 2006, an independent non-executive director of Smartac Group China Holdings Limited (the shares of which are listed on the Main Board of the Stock Exchange with stock code: 395) since January 2010, an executive director and the chief financial officer of Huakang Biomedical Holdings Company Limited (the shares of which are listed on the GEM of the Stock Exchange with stock code: 8622) since August 2017. From February 2016 to July 2017, Mr. Poon was an alternative director of Vincent Medical Holdings Limited (the shares of which are listed on the Main Board of the Stock Exchange with stock code: 1612). From August 2017 to April 2019, Mr. Poon was an independent non-executive director of Cityneon Holdings Limited (the shares of which were listed on the main board of the Singapore Exchange Limited with stock code: 5HJ. SGX and were delisted with effect from 1 February 2019). Mr. Poon has also been an independent non-executive director of Teamway International Group Holdings Limited (the shares of which are listed on the Main Board of the Stock Exchange with stock code: 1239) since March 2019 and an independent non-executive director of LFG Investment Holdings Limited (the shares of which are listed on the Main Board of the Stock Exchange with stock code: 3938) since September 2019.

## SENIOR MANAGEMENT

**Mr. TSOI Kin Lung (蔡建龍)**, aged 45, was appointed as the company secretary of the Group on 28 June 2019. Mr. Tsoi joined the Company in April 2019. He is in charge of the company secretarial work of the Group.

Mr. Tsoi has over 20 years of experience in financial management, corporate finance and auditing. He is an associate member of the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor's Degree in Business Administration from The Chinese University of Hong Kong in 1998. Mr. Tsoi was a financial controller and company secretary of a company listed on the main board of the Stock Exchange.

**Mr. LUO Yongxiang (羅永祥)**, aged 34, is the R&D director of the Group. Mr. Luo joined the Group on 7 September 2009. He is responsible for overseeing the R&D of new chemical products. From 2009 to 2016, Mr. Luo was responsible for the examination of engineering projects in the chemical department.

Mr. Luo has over 10 years of experience in researching on new micro-electronic materials with high attainments, especially epoxy, silicone and acrylate. Mr. Luo has also made publications including Chinese Journal of Scientific and Technical Periodicals in 2016 and Electronics and Packaging, a magazine published in Wuxi City, Jiangsu Province in 2012 and 2013.

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

**Mr. HUANG Peng (黃鵬)**, aged 40, is the production director of the Group. Mr. Huang joined the Group on 10 February 2011. He is responsible for the production and information management of the Group.

Mr. Huang has over 9 years of experience in researching on the informationisation, standardisation and production of advanced enterprise management systems. Prior to joining the Group, Mr. Huang had worked as an administrative personnel responsible for production management in China Circuit Technology (Shantou) Corporation, a subsidiary of Guangdong Goworld Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000823), from 2004 to 2011.

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

## COMPANY SECRETARY

Mr. TSOI Kin Lung has been the company secretary of the Company since 28 June 2019. Mr. Tsoi is ordinarily resident in Hong Kong. Please refer to the paragraphs headed "Biographical details of Director and Senior Management" above of his qualifications and experience.

For the year ended 31 December 2019, the company secretary has complied with the GEM Listing Rules by taking not less than 15 hours of relevant professional training.

## COMPLIANCE OFFICER

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

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the Review Year.

## CORPORATE GOVERNANCE PRACTICES

The Company places high value on the corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the Shareholders. The Company complied with Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules for the Review Year.

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

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

## BOARD OF DIRECTORS

### Board Composition

The Board of the Company currently comprises seven members, including three executive Directors, namely Mr. Chow (executive chairman), Professor Chow and Mr. Shi Yiwu, one non-executive Director, namely Mr. Leo Ma, and three independent non-executive Directors, namely Professor Ng Wang Wai Charles, Mr. Tai Chun Kit and Mr. Poon Lai Yin Michael.

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

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

The Chairman and chief executive officer have segregated defined responsibilities whereby the Chairman is primarily responsible for leadership and effective functioning of the Board, ensuring all key and appropriate issues are addressed by the Board in a timely manner, as well as providing strategic direction of the Group, and also take primary responsibility for ensuring good corporate governance practices and procedures are established. The chief executive officer is responsible for the day-to-day management of the Group and the effective implementation of corporate strategy and policies.

In view of Mr. Chow, being the founder of the Group and his experience and his roles in the Group, the Board considers it beneficial to the business prospect and operational efficiency of the Group that Mr. Chow acts as the chairman of the Board. As explained in the paragraph above, the Company has not appointed any chief executive officer.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors namely Professor Ng Wang Wai Charles, Mr. Tai Chun Kit and Mr. Poon Lai Yin Michael to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the Review Year.

## NON-EXECUTIVE DIRECTOR

Mr. Leo Ma, the non-executive Director, has entered into a letter or appointment with the Company for a term of three years and such letter of appointment may be terminated by either party giving at least one month notice in writing. Also, Mr. Leo Ma is subject to re-election on retirement by rotation at general meetings in accordance with the Articles of Association of the Company.

## ROLE AND FUNCTION OF THE BOARD

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

## DELEGATION BY THE BOARD

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

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

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

All Directors have given sufficient time and attention to the affairs of the Group and execution ability to hold the position so as to carry out his duties effectively and efficiently.

## BOARD DIVERSITY POLICY

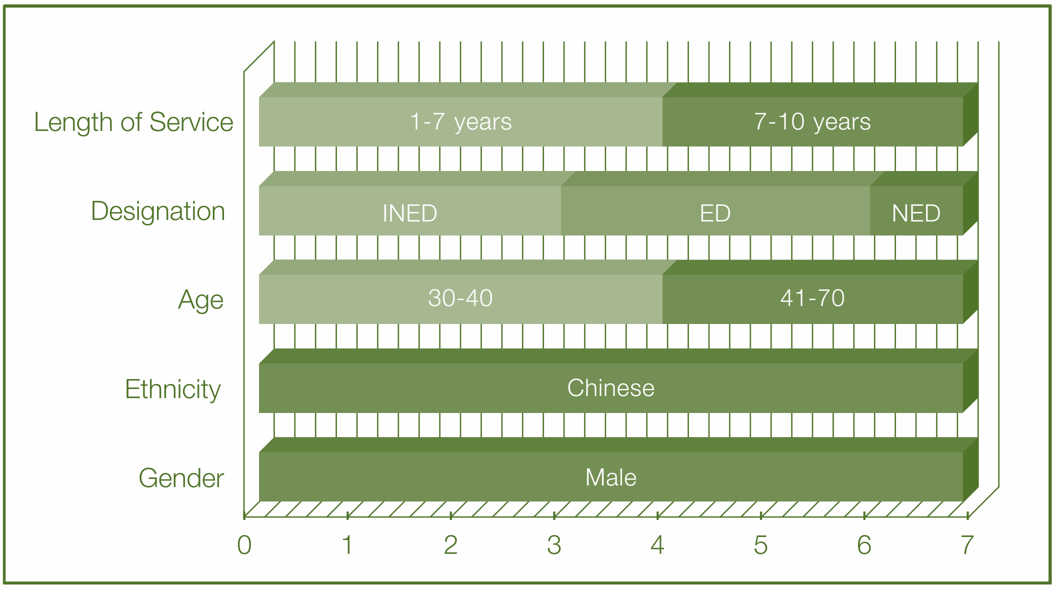
The Company has adopted a board diversity policy (the "**Board Diversity Policy**") on 8 May 2018 which sets out in the CG Code the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

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

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

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

The Board composition are summarized as follows:




## PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

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

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

## BOARD MEETINGS

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

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

## NUMBER OF MEETINGS AND ATTENDANCE RECORDS

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

| | No. of Meetings attended/Eligible to attend | | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **Board** | **Audit Committee** | **Nomination Committee** | **Remuneration Committee** | **Annual General Meeting** |
| **Executive Directors** | | | | | |
| Mr. Chow | 4/4 | N/A | 2/2 | 2/2 | 1/1 |
| Professor Chow | 4/4 | N/A | 2/2 | N/A | 1/1 |
| Mr. Shi Yiwu | 4/4 | N/A | N/A | N/A | 1/1 |
| **Non-executive Director** | | | | | |
| Mr. Leo Ma | 4/4 | N/A | N/A | N/A | 1/1 |
| **Independent non-executive Directors** | | | | | |
| Professor Ng Wang Wai Charles | 4/4 | 4/4 | 2/2 | 2/2 | 1/1 |
| Dr. Cheng Faat Ting Gary *(Note 1)* | 2/2 | 2/2 | 2/2 | 2/2 | 1/1 |
| Mr. Poon Lai Yin Michael *(Note 2)* | 2/2 | 2/2 | N/A | N/A | N/A |
| Mr. Tai Chun Kit | 4/4 | 4/4 | 2/2 | 2/2 | 1/1 |

*Note 1:* Dr. Cheng Faat Ting Gary resigned as an independent non-executive Director, the chairman of the Audit Committee, and a member of the Remuneration Committee and Nomination Committee with effect from 28 June 2019.

*Note 2:* Mr. Poon Lai Yin Michael was appointed as an independent non-executive Director, the chairman of the Audit Committee, and a member of the Remuneration Committee and Nomination Committee with effect from 28 June 2019.

## BOARD COMMITTEE

### Audit Committee

The Company established an audit committee (the "**Audit Committee**") on 8 May 2018 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules and C.3.3 and C.3.7 of the CG Code. The terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Audit Committee mainly include reviewing and approving of the Group's financial reporting process and internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. As at 31 December 2019, the Audit Committee consists of three members, all three INEDs, namely Professor Ng Wang Wai Charles, Mr. Tai Chun Kit and Mr. Poon Lai Yin Michael. Mr. Poon Lai Yin Michael, who processes the appropriate professional qualifications as required under Rules 5.05(2) and 5.29 of the GEM Listing Rules, is the chairman of the Audit Committee.

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

### Remuneration Committee

The Company established a remuneration committee (the "**Remuneration Committee**") on 8 May 2018 with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and B.1.2 of the CG Code. The terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Remuneration Committee include formulating the remuneration policy, reviewing and determining the terms of the remuneration packages of the Directors and senior management of the Group, and reviewing and approving performance-based remuneration with reference to corporate goals and objective resolved by the Board from time to time. As at 31 December 2019, the Remuneration Committee consists of an executive Director and three independent non-executive Directors, being Mr. Chow, Mr. Poon Lai Yin Michael, Mr. Tai Chun Kit and Professor Ng Wang Wai Charles. Professor Ng Wang Wai Charles is the chairman of the Remuneration Committee. Details of the remuneration of Directors are set out in note 10 to the consolidated financial statements.

On 21 March 2019, the Remuneration Committee met to review the remuneration policy and the structure of the remuneration.

### Nomination Committee

The Company established a nomination committee (the "**Nomination Committee**") on 8 May 2018 with written terms of reference in compliance with paragraph A.5 of the CG Code. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Nomination Committee include formulating our nomination policy and making recommendations to any proposed changes to the Board. As at 31 December 2019, the Nomination Committee consists of two executive Directors and three independent non-executive Directors, being Professor Chow, Mr. Chow, Mr. Poon Lai Yin Michael, Mr. Tai Chun Kit and Professor Ng Wang Wai Charles. Mr. Chow is the chairman of the Nomination Committee.

### Nomination Policy

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

(a) Reputation for integrity;

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

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

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

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

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

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

During the Review Year, Mr. Poon Lai Yin Michael was appointed as an independent non-executive Director, effective from 28 June 2019. The nominations were made in accordance with the Nomination Policy and the Board Diversity Policy of the Company.

On 21 March 2019, the Nomination Committee met to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to review the board diversity policy to ensure its effectiveness and consider that the Group has achieved the objectives of the board diversity policy during the Review Year, and to consider the qualifications of the retiring Directors for the Board to consider and as appropriate, recommend to shareholders their re-election at the forthcoming annual general meeting of the Company.

### Corporate Governance Function

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

## DIRECTORS' SECURITIES TRANSACTIONS

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

## AUDITOR'S REMUNERATION

During the Review Year, the total fees paid/payable in respect of audit services and non-audit services provided by Deloitte Touche Tohmatsu are set out below:

| **Services rendered to the Group** | **Fees paid and payable** | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| Audit services: | | |
| Annual audit | **2,200** | 700 |
| Non-audit services: | | |
| Professional services rendered in connection with consultation on application of new accounting standards | **400** | – |
| Review the interim financial information of the Group for six months ended 30 June | **–** | 300 |
| Acting as reporting accountant in relation to the Listing of the Company | **–** | 248 |
| | **2,600** | 1,248 |

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

### Internal Controls

The Group has maintained internal control policies to provide sufficient guidelines for the management staff and employees of the Company to work efficiently under a standardized work procedure. The internal control policies cover various operating processes from risk assessment, financial reporting, cost management, pricing for projects, staff recruitment and training to IT system control. The internal control system is generally overseen by the executive Directors and senior management of the Group and is reviewed at least once a year. During the Review Year, the Group has engaged an independent staff to review the effectiveness of the Group's internal control measures. In additional, as a result of the matter explained in "Key Audit Matters" on page 49 of this report and in notes 18(c) and 33 to the consolidated financial statements, the Group has engaged an independent internal control review advisor to conduct reviews of the procurement management process of the Group. The Audit Committee was satisfied and the Board concluded that the Group has maintained effective internal control measures to ensure that the operations of the Group would be in full compliance with the CG Code and the applicable laws and regulations. The Group has dedicated internal audit function who reviews the effectiveness of the risk management and internal control systems from time to time in order to ensure that they meet with the dynamic and ever changing business environment.

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

### Risk Management

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

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

During the Review Year, the risk management process of the Group has been reviewed, and the Board considered that process was effective and adequate for the Review Year.

## DISSEMINATION OF INSIDE INFORMATION

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

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

## INVESTOR RELATIONS AND COMMUNICATION

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

During the Review Year, an annual general meeting was held on 27 June 2019.

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

## CONSTITUTIONAL DOCUMENTS

Pursuant to Rule 17.102 of the GEM Listing Rules, the Company has published on the websites of the Company and the Stock Exchange its Memorandum and Articles of Association. There was no significant change in the Memorandum and Articles of Association of the Company during the Review Year.

## COMPANY SECRETARY

The company secretary of the Company, Mr. KOO Wing Yip, was appointed on 11 May 2017 and resigned on 28 June 2019. Mr. TSOI Kin Lung was appointed as the company secretary of the Company with effect from 28 June 2019. The company secretary of the Company is responsible for facilitating the Board meeting process, as well as communications among Board members, with Shareholders and the management of the Company. During the Review Year, Mr. Tsoi has undertaken no less than 15 hours of relevant professional training in compliance with Rule 5.15 of the GEM Listing Rules.

The biographic of Mr. Tsoi is set out in the section headed "Biographical details of Directors and Senior Management" of this report.

## SHAREHOLDERS' RIGHT

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

The Board is pleased to present its annual report (the "**Annual Report**") together with the audited consolidated financial statements of the Group for the Review Year.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 35 to the consolidated financial statements. The Group is principally engaged in the development, manufacture and sales of semiconductor packaging materials.

## RESULTS AND DIVIDENDS

The results of the Group for the Review Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 53.

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

## ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting is scheduled to be held on Wednesday, 17 June 2020 (the "**AGM**"). For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 12 June 2020 to Wednesday, 17 June 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to attend and vote at the AGM, unregistered holders of Shares should ensure that all Share transfer documents accompanied by the relevant Share certificates must be lodged with the share registrar of the Company in Hong Kong, Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 11 June 2020.

## FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years ended 31 December 2019, as extracted from the audited financial statements, is set out on page 120 in the Annual Report. This summary does not form part of the audited consolidated financial statements.

## REVENUE AND SEGMENT INFORMATION

The revenue and segment information for the Review Year are set out in note 5 to the consolidated financial statements.

## PLANT AND EQUIPMENT

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

## SHARE CAPITAL AND SHARE OPTIONS SCHEMES

Details of the Company's share capital and share option schemes are set out in notes 25 and 34 to the consolidated financial statements respectively.

## RESERVES

Details of movements in the reserves of the Group and the Company are set out in consolidated statement of changes in equity and note 36 to the consolidated financial statements, respectively.

## PRE-EMPTIVE RIGHTS

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

## RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the Review Year are set out in note 33 to the consolidated financial statements. To the best knowledge of the Directors, none of these related party transactions constitutes connected transactions that need to be disclosed under the GEM Listing Rules.

## DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$189.8 million. This includes the Company's share premium in the amount of approximately HK$128.1 million at 31 December 2019, which may be distributable to the Shareholder provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Review Year, sales to the Group's five largest customers accounted for approximately 48.8% (2018: 50.0%) of the Group's total sales and the largest customer included therein amounted to approximately 22.4% (2018: 30.1%).

During the Review Year, purchases from the Group's five largest suppliers accounted for approximately 78.2% (2018: 79.9%) of the Group's total purchases and purchase from the largest supplier included therein amounted to approximately 36.0% (2018: 36.1%).

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

## BUSINESS REVIEW

A review of the business of the Group as well as discussion and analysis of the Group's performance during the Review Year and the material factors underlying its results and financial position can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on page 3 and pages 4 to 9, respectively.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

### Risk relating to the Industry

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

### Risk relating to concentration of suppliers

The Group is dependent upon a small number of suppliers for raw materials that it uses in manufacturing its products. The largest and top five suppliers of the Group accounted for approximately 36.0% and 78.2% of our total purchase in the Review Year (2018: 36.1% and 79.9% respectively). There is no assurance that the business relationship of the Group with its supplies will continue in the future. To reduce the risk, the Group has expanded its supplier base for high quality suppliers. The Group has also developed its own products which are produced through reliable subcontractors to secure sources of products supply.

### Risks relating to conducting business in the PRC

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

### Risk relating to products' competitiveness

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

### Financial risks

Details of financial risks are set out in note 30 to the consolidated financial statements.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

The Environmental, Social and Governance Report of the Company ("ESG") containing an overview of the environmental, social and governance performance of the Group's operations for the financial year ended 31 December 2019 is contained on pages 34 to 46 of this Annual Report.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

## RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

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

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

## DIRECTORS

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

### Executive Directors

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

### Non-executive Director

Mr. Ma Yung King Leo

### Independent Non-executive Directors

Professor Ng Wang Wai Charles
Mr. Tai Chun Kit
Mr. Poon Lai Yin Michael (Appointed on 28 June 2019)
Dr. Cheng Faat Ting Gary (Resigned on 28 June 2019)

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

Pursuant to article 112 of the Articles of Association of the Company, Mr. Poon Lai Yin Michael will hold office as Director until the AGM and, being eligible, offer himself for re-election at the AGM.

Pursuant to article 108 of the Articles of Association of the Company, Professor Ng Wang Wai Charles and Mr. Tai Chun Kit shall retire from office as Directors by rotation at the AGM and, being eligible, offer themselves for re-election at the AGM.

## DIRECTORS' SERVICE CONTRACTS

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

## INTERESTS IN COMPETING BUSINESS

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and Senior Management are set out on pages 10 to 13 of this Annual Report.

## EMOLUMENT POLICY

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

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

The Group has adopted share option scheme as an incentive to eligible employees. Details of the share option schemes of the Group are set out in note 34 to the consolidated financial statements of this Annual Report.

## EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

## PERMITTED INDEMNITY PROVISION

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

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

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

## INDEPENDENCE CONFIRMATION

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

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

Save as those disclosed in note 33 to the consolidated financial statements, there were no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company's or any of its subsidiaries was a party, and in which a Director or its connected entities had a material interest (whether directly or indirectly) subsisting at the end of the year or at any time during the Review Year under Chapter 20 of the GEM Listing Rules.

## MANAGEMENT CONTRACTS

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

## RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in note 26 to the consolidated financial statements.

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

As at 31 December 2019, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

### Long positions in the Shares

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

*Notes:*

(1) As at 31 December 2019, the Company's issued share capital was HK$7,055,000 divided into 705,500,000 shares of HK$0.01 each.

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

### Interests in shares of the associated corporations of the Company

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

*Notes:*

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

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

Save as disclosed above, as at 31 December 2019, none of the Directors nor chief executives of the Company had or was deemed to have any other interests and short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

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

So far as is known to the Directors, as at 31 December 2019, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions (directly or indirectly) in the Shares or underlying shares that would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO for being recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

### Long positions in the Shares

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

*Notes:*

(1) As at 31 December 2019, the Company's issued ordinary share capital was HK$7,055,000 divided into 705,500,000 shares of HK$0.01 each.

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

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

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

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

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any other persons (other than the Directors or the chief executive of the Company) who had, or was deemed to have, interest or short positions in the Shares or underlying shares would fall to be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO for being recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## DIRECTORS' SECURITIES TRANSACTIONS

Details of Directors' securities transactions are set out in the section headed "Corporate Governance Report" on page 14 of this Annual Report.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Review Year and up to date of this report.

## INTEREST OF THE COMPLIANCE ADVISER

As notified by Titan Financial Services Limited ("**Titan**"), the Company's compliance adviser, save for the compliance agreement entered into between the Company and Titan dated 1 September 2017 in connection with the Listing, none of Titan or its directors, employees or associates (as defined in the GEM Listing Rules) had any interest in the Group as at 31 December 2019, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## CORPORATE GOVERNANCE CODE

Details of the principle corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 14 to 22 of this Annual Report.

## CHARITABLE DONATIONS

No charitable donations were made by the Group during the year ended 31 December 2019 (31 December 2018: HK$ Nil).

## DIVIDEND POLICY

The Company has adopted a dividend policy, pursuant to which the Company gives priority to distributing dividend in cash and shares its profits with its Shareholders. The dividend payout ratio shall be determined or recommended, as appropriate, by the Board at its absolute discretion after taking into account the Company's financial results, future prospects and other factors, and subject to:

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 December 2019 were audited by Deloitte Touche Tohmatsu. There has been no change of auditors in the past three years. A resolution will be proposed at the forthcoming AGM of the Company to re-appoint Deloitte Touche Tohmatsu.

## DEED OF NON-COMPETITION

BVI Holdings, BVI Chows, Professor Chow and Mr. Chow (collectively the "**Controlling Shareholders**"), being the controlling shareholders (as defined under the GEM Listing Rules) of the Company, have entered into a deed of non-competition on 8 May 2018 in favour of the Company (the "**Deed of Non-Competition**"). Details of the Deed of Non-Competition were set out in the section headed "Relationship with Our Controlling Shareholders" of the Prospectus. Pursuant to which the Controlling Shareholders have undertaken, jointly and severally, to the Company that they would not, and that their close associates or associated companies controlled by them would not directly or indirectly carry on, participate, or be interested or engaged in or acquire or hold any business which is or may be in competition with the existing business of the Group. During the Review Year, the Company received an annual confirmation in writing from each of the Controlling Shareholder confirming that he/it had complied with the non-competition undertakings provided to the Company under the Deed of Non-Competition. The independent non-executive Directors have reviewed and confirmed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by each of that the Controlling Shareholders and duly enforced during the Review Year and up to the date of this report.

On behalf of the Board

**Chow Bok Hin Felix**
*Executive Chairman and Executive Director*

Hong Kong, 11 May 2020

*As at the date of this report, the executive Directors are Mr. Chow Bok Hin Felix, Professor Chow Chun Kay Stephen and Mr. Shi Yiwu, the non-executive Director is Mr. Ma Yung King Leo, and the independent non-executive Directors are Professor Ng Wang Wai Charles, Mr. Tai Chun Kit and Mr. Poon Lai Yin Michael.*

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

## ABOUT THIS REPORT

This report is the second Environmental, Social and Governance report (the "**report**") published by the Company, which reports on the environmental, social and governance ("**ESG**") performance of the Group. It is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") as contained in Appendix 20 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

### Reporting Boundary

The report focuses on the operation of the Group's business in the development, production and sales of semiconductor packaging between January 2019 and December 2019. The reporting boundary covers the Hong Kong headquarter office and the production facility in Shantou (collectively as the "**sites of operation**"[1]). The Group will continuously upgrade the internal data collection procedure and gradually expand the scope of disclosure. A complete index that references the ESG Reporting Guide is inserted at the end for readers' easy reference.

### Confirmation and Approval

Information disclosed in this report is sourced from the internal documents and statistical data of the Group. The report has been confirmed and approved by the board of directors (the "**Board**") of the Group on 11 May 2020.

### Opinion and Feedback

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

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

## SUSTAINABILITY GOVERNANCE

To effectively manage the sustainability risks in its operation, the Group has established the Social and Governance Committee (hereafter as the "**Committee**"), which oversees relevant managerial measures and provides suggestions to the Board.

**Issues managed by the Committee**

| | |
|---|---|
| Health and safety | Environment |
| Relations with employees | Security |
| Ethical conducts | Relations with the community and other individuals related to businesses |

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

The Committee is responsible for monitoring, review and evaluation of actions taken by the Group in response to sustainability risks and opportunities, as well as suggesting strategies for improving the sustainability performance of the Group.

The General Manager of Niche-Tech Shantou acts as the Senior Management Representative of the Committee, who monitors the overall sustainability policies, measures and performance. The Committee also formulates the sustainability strategies of the sites of operation, sets objectives and approves targets, as well as regularly reports to the Board.

## ESG RISK MANAGEMENT

The Committee is also responsible for the ESG risk management system at strategic and operational levels for the sites of operation of the Group, to support the sustainability of the Group's business growth targets in the long term. Qualified personnel in each department continually operates and monitors the systems and assess the risks according to their magnitude and frequencies. When high-risk factors are identified, the relevant departments must adopt response measures immediately to avoid or mitigate the risk(s).

## ENVIRONMENTAL PROTECTION

The Group is committed to reducing adverse impact of its operation on the environment and emphasises prevention of environmental pollution and proper use of resources and energy. The Group has formulated the Environment Handbook (《環境手冊》), which covers policies of emissions management and use of resources. Compiled according to international standards of the ISO14001 environmental management system, the Environment Handbook adopts a systematic approach to strengthen the environmental management of the Group. An Environmental Management System Standard Assurance Team led by the Quality Control Department was established by Niche-Tech Shantou to maintain and continuously improve the environmental management system.

### Emissions

The Group has formulated the Energy Efficiency and Emissions Reduction Management Protocols (《節能減排管理規定》) and the Waste Management Protocols (《廢棄物管理規定》) at the sites of operation to provide employees with regular guidance for reducing and managing emissions. The main emissions at the sites of operation included air emissions and greenhouse gases ("**GHG**") from fuel vehicles, GHG generated indirectly by electricity consumption, wastewater and waste. The quantification of GHG emissions (or "**carbon emissions**") was carried out with reference to the guidelines[2] compiled by the Environmental Protection Department and Electrical and Mechanical Services Department of Hong Kong, guidelines[3] compiled by the National Development and Reform Commission, and international standards such as the GHG Protocol[4].

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

3 Guidelines for Accounting and Reporting Greenhouse Gas Emissions from China Electronic Equipment Manufacturing Enterprises (Trial).

4 GHG Protocol Corporate Accounting and Reporting Standard.

**GHG Emissions**

| Scope | Emissions in 2019 (tonnes of CO2-e) | Emissions in 2018 (tonnes of CO2-e) |
|---|---|---|
| Scope 1: Direct Emissions[5] | 9.4 | 16.8 |
| Scope 2: Energy indirect emissions[6] | 1,163.1 | 1,257.8 |
| **GHG Emissions in Total** | **1,172.5** | **1,274.6** |
| **GHG Intensity** (per 1,000 square metre floor area) | 8.8 | 9.5 |

The total GHG emissions of the sites of operation during the Review Year were 1,172.5 tonnes of carbon dioxide equivalent, which reduced from the Previous Year by 8%. Scope 2 indirect emissions continued to be the major source of GHG emissions in all sites of operation, accounting for 99% of total emissions. Scope 1 direct emissions and Scope 2 indirect emissions reduced by 44% and 8% compared to the Previous Year.

For air emissions, during the Review Year, the emissions of nitrogen oxides, sulfur oxides, and respirable particulate matter dropped by 50%, 13% and remain the same respectively compared to the Previous Year. It was mainly due to reduced use of fuel vehicles in the production facility in Shantou.

As GHG and air emissions of the sites of operation were greatly contributed by the use of electricity, please refer to "Use of resources" for more details of energy reduction measures.

Non-hazardous waste produced by the Hong Kong office was generally handled by waste contractors and transferred to landfills. Non-hazardous waste from the production facility in Shantou was either recycled or handled by qualified waste collection centres. Hazardous waste was treated by incineration, transferred to landfills, decomposed or recycled by qualified contractors. During the Review Year, non-hazardous waste produced in all sites of operation reduced by 4% compared to the Previous Year. However, the generation of hazardous waste in all sites of operation increased by 1.74 times. This was mainly from the beginning of the Review Year, due to the processing of hazardous waste which was accumulated from the Previous Year in the production facility in Shantou.

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

## Use of Resources

The Group continued to prompt employee practices on conservation of energy, water and paper in all sites of operation. Its commitments of conserving the use of energy were stipulated in the Energy Efficiency and Emissions Reduction Management Protocols (《節能減排管理規定》). During the Review Year, there was a marked reduction in resources consumption.

5 Scope 1 includes GHG emissions from mobile source combustion. Besides, air conditioning equipment of Niche-Tech Shantou also involves fugitive emissions of GHG, with a carbon footprint of about 40 tonnes CO2-e. Since the composition of the refrigerant (R22) is not within the GHG regulated by the Kyoto Protocol and the HKEX Reporting Guidance on Environmental KPIs, the report does not include it in total Scope 1 emissions.

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

Direct energy (fuel vehicles) and indirect energy (electricity) consumption reduced by 44% and 8% respectively compared to the Previous Year. The reduction in electricity consumption in all sites of operation which amounted to 8% was mainly due to the 8% decrease in total annual electricity consumption of the production facility in Shantou, which accounted for 97% of total area of the reporting boundary. Electricity consumption of the Hong Kong office increased by 76% compared to the Previous Year. The drastic increase was mainly due to the fact that during the Previous Year, formal operation of the Hong Kong office only began in June, while it operated for the whole year during the Review Year. The average monthly electricity consumption of the Hong Kong office reduced by 6% compared to the last reporting year, which demonstrates the effectiveness of the energy saving measures adopted by the Group during the Review Year. (For example, using standalone switches in office and meeting rooms, replacing energy intensive old mechanical and electrical equipment with models of higher energy efficiency, and monitoring energy consumption.)

During the Review Year the Group continued to implement measures to conserve paper, which included use of recycled paper or paper made from sustainable raw materials; use of electronic communication and archiving; reduced use of paper documents; promotion of double side printing, and adopting electronic tendering. Paper consumption in the Hong Kong office reduced by 43% compared to the last reporting year. However, due to the increase in production volume, there was a 29% increase in the use of packaging materials for finished products (i.e. plastic bags and carton packaging) at the production facility in Shantou.

The production facility in Shantou had a burst pipe in the first quarter last year. During the Review Year, the Group adopted various mitigation measures, including regular maintenance of relevant devices such as the water faucet to prevent similar incident and reduce the risk of leakage. The Group also implemented various water saving measures, including adopting faucets with Grade 1 Water Efficiency Label, making water-saving notices to remind employees to save water and monitoring water consumption. Total water consumption during the Review Year reduced by 15% compared to the last reporting year. The Group sourced its water from municipal supply and had no difficulty in sourcing water fit for purpose.

### The Environment and Natural Resources

The Group has formulated the Environmental Factors Identification and Assessment Control Procedures (《環境因素識別與評價控制程序》), under which all sites of operations identify the key environmental factors and formulate environmental targets and management plans according to the Group's environmental approach and indicators.

**Issues to consider when identifying key environmental factors**

| | |
|---|---|
| Requirements of relevant laws and regulations | Frequency of occurence |
| Scale and severity of environmental impact | Time of environmental impact |
| Level of concern among stakeholders | Potential environmental risks and safety threats |

**Identified key environmental factors (excerpt)**

| Key environmental factors | Environmental impact |
|---|---|
| Production of oily wastewater | Water discharge pollution |
| Waste lubricant | Hazardous waste |
| Oily waste silk | Hazardous solid waste |
| Diesel leak | Explosion |
| Chemical leak | Soil pollution |

At the same time, when making major business decisions, the Group considers the impact of business activities on climate change, and adopts measures to protect water and soil, restore vegetation and reduce occupation of cultivated land at the production facility in Shantou.

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

## EMPLOYMENT AND LABOUR PRACTICES

The Group is committed to building a safe working environment to support employee development and protect their fundamental labour rights. Niche-Tech Shantou has released the Staff Handbook (《員工手冊》) to employees to state the rights and duties between the Company and the employees.

### Employment

The Group protects the various rights of employees according to the requirements of the relevant international and national laws. The Group has stipulated the employment terms covering compensation, dismissal, recruitment, promotion, working hours, rest periods and welfare in the Staff Handbook (《員工手冊》). Niche-Tech Shantou stipulates in the Anti-Discrimination Policy (《禁止歧視管理制度》) that the formulation and implementation of policies such as recruitment, compensation, benefits, training, promotion, holidays, dismissal or retirement should adhere to the principles of fairness and impartiality without interfering with employees activities in relation to race, social class, nationality, religious beliefs, disabilities, sexual orientation and freedom of association in trade unions. Discriminatory content should be avoided in job advertisements.

To protect employees' legal rights, the Group has in place a complaint mechanism. Employees can lodge complaints via meeting, letter, email or suggestion box. The Group will respond to the complaints and suggestions in a timely manner according to the mechanism.

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

### Health and Safety

The Group is committed to creating a healthy and safe working environment for employees. Niche-Tech Shantou followed the OHSAS 18001 requirements of occupational health and safety management system to establish a specialised department and formulate occupational health and safety management procedures to control health and safety risks in a systematic manner. The relevant procedures are included in the Occupational Health and Safety Management Handbook (《職業健康安全管理手冊》).

Comprising management representatives, department heads and personnel, the Occupational Health and Safety Standard Assurance Team is responsible for coordinating the implementation of occupational health and safety related measures. All departments should identify and control the risks within their scope of work and formulate the management process of key safety activities according to risk assessment results.

**Identified key sources of hazards (excerpt)**

| Major sources of hazards | Impact or consequence |
|---|---|
| Fire caused by failure of high-temperature heating components | Fire |
| Leakage caused by poor grounding of equipment | Electric shock |
| Intense collision of high-pressure gas cylinders | Explosion |
| Improper lifting | Smash or twist |

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

## Development and Training

The Group pays attention to employee occupational development and provides the resources and channels to help them enhance their work skills and explore personal development opportunities. Niche-Tech Shantou formulated the Employee Training Management Protocols (《員工培訓管理規定》) to regulate training management. The human resources department is responsible for formulating the annual training programme and follow up with the assessment of the effectiveness of the management training programme. All departments should assess their training needs to assist the analysis and assessment of training needs.

The Group provides various types of training for employees to enhance diverse skills.

**Employee training programme**

| Training type | Training theme |
|---|---|
| Orientation Training | Production safety |
| On-the-job training | Environmental protection |
| Recurrent training | Occupational health |
| | Job skills |

### Labour Standards

To regulate the recruitment policy and remedial measures to effectively prevent child labour and forced labour, and ensure the physical and mental health of female workers, Niche-Tech Shantou formulated the Management System of Female Workers and Youth Workers (《女職工和未成年工管理制度》) to specify the minimum working age and other relevant matters. Before hiring any employees, relevant documentation should be checked. If child labours were spotted, the relevant persons in charge in the Human Resources and Administration Department should immediately remove the child labour from the workplace, arrange health checks and escort him/her to the place of origin to ensure his/her safety.

**Measures to protect female workers and youth workers (excerpt)**

| Measures to protect female workers | Measures to protect youth workers[7] |
|---|---|
| • During menstruation, working at heights, low temperature or physical work of level three intensity[8] are prohibited;<br>• During pregnancy, physical work of level three intensity[8], extended working hours and nigh shifts are prohibited;<br>• Entitlement to national and statutory parental leave and welfare before and after giving birth;<br>• Breastfeeding employees are entitled to breastfeeding breaks in each session of work. | • Physical examination should be conducted during the recruitment. Only those who passed will be hired. Regular examination is conducted after recruitment. All expenses are paid by the Group;<br>• Toxic or harmful tasks and physical work of level four intensity[8] is prohibited;<br>• Set aside time for learning culture and skills at work;<br>• Working hours should not exceed 6 hours per day in the first school year[9]; 7 hours in the second school year and 8 hours in the third school year. |

The Group also stipulates in the Staff Handbook (《員工手冊》) that overtime work is not encouraged. If overtime work outside office hours is required for business reasons, the Group shall arrange compensation leave for the relevant employees with priority to ensure adequate rest as a principle.

## OPERATING PRACTICES

### Supply Chain Management

The Group is committed to working with suppliers to enhance the environmental and social performance of both parties. To achieve this goal, the sites of operation of the Group formulated the Supply Chain Management and Assessment (《供應商管理與評估》), which regulates the supplier selection, assessment and management requirements. Detailed procedures of supplier selection, approval, daily management and performance assessment are listed to ensure that the suppliers comply with the requirements of stable supply.

7 Employees over 16 and below 18.

8 Determined by the calculation of the Classified Standard of Labor Intensity at Physical Work of the Standardization Administration of China.

9 According to national regulations, technical schools should establish and improve the student's academic performance assessment system, and carefully conduct regular examinations, semesters, school years, and graduation examinations.

Under the regulation of the above policy documents, qualified suppliers should sign the Suppliers Environmental Agreement (《供方環境協議》) and the Quality Assurance Agreement (《質量保證協議》) to commit themselves to the environmental and quality standards of raw materials. They should also sign a declaration that the conflict minerals (including tantalum, tin, tungsten and gold) in the raw materials supplied would not directly or indirectly fund armed organisations that undermine human rights.

### Product Responsibility

The Group values customers' opinion and is committed to maintaining good customer relationship and ensuring that the product quality complies with customers' safety requirements. To this end, the Group has implemented the following measures:

- formulated internal quality monitoring standards or process;
- formulated the quality inspection system;
- formulated product safety inspection process;
- stayed up-to-date with safety laws and regulations amendments with timely follow up.

Niche-Tech Shantou formulated the Procedures on Customer Complaint and Return Handing (《客戶投訴及退換貨處理規程》), which stipulates the duties and procedures of handling customer complaints and product return. If there are problems with product quality, the business department will arrange return. When a complaint is received, the Group will conduct an investigation and deliver a report and give the customer a reply before formulating a post-complaint handling solution. The Group also plans to formulate policies related to advertisement and labelling and provide customers with impartial, accurate, honest and justifiable information in all marketing channels.

The Group is keen to protect customer information and intellectual property. Niche-Tech Shantou's Management Protocols on Intellectual Property, Confidentiality and Competition Restriction (《知識產權、保密及競業限制管理規定》) requires that employees should not disclose the information of suppliers, distributors and customers. Employees are prohibited from infringing others' intellectual property rights either.

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

### Anti-corruption

The Group prohibits any acts of corruption and bribery and has formulated the Corruption Prevention Policy (《防止賄賂政策》) and the Anti-Money Laundering Management Regulations (《反洗錢管理規定》), to define improper behavior and regulate measures to crack down on corruption and bribery.

The Group formulated the Anti-Fraud Procedures (《反舞弊程序》). Whistleblowers can make reports relating to bribery, extortion, fraud and money laundering to the Group through emails, telephones and interviews. The identity of the whistleblower will be kept confidential.

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

## COMMUNITY INVESTMENT

The market increasingly focus on corporate social responsibility, from which derives the concept of social license to operate. It emphasises that corporates should aim at the long-term benefits of the society as a whole instead of setting the goal to achieve short-term financial performance and shareholder returns. As a socially responsible business, the Group commits to making contributions to the sustainability of society.

The Group formulated the Community Investment Policy Statement (《社區投資政策聲明》). The Group's community investment focuses on volunteer services, charitable activities and donation and sponsorship. The Group undertakes to:

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

During the Review Year, the Group invited employees to participate in a blood donation campaign to promote awareness of blood donation and enhance community health and sustainability.

## ESG REPORTING GUIDE CONTENT INDEX

| Material Aspect | Content | KPIs for the Reporting Period | | Page Index |
|---|---|---|---|---|
| | | 2019 | 2018 | |
| **A. *Environmental*** | | | | |
| **A1 Emissions** | | | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | – | – | 35,38 |
| A1.1 | The types of emissions and respective emissions data | – | – | 36,43 |
| | Nitrogen oxides (NOx) (kilogram) | 0.3 | 0.6 | 36,43 |
| | Sulphur oxides (SOx) (kilogram) | 11.9 | 13.6 | 36,43 |
| | Particulate matter (kilogram) | 0.4 | 0.4 | 36,43 |
| A1.2 | GHG emissions in total (tonnes CO2-e) | 1,172.5 | 1,274.6 | 36,43 |
| | Scope 1 GHG emissions: direct emissions[10] (tonnes CO2-e) | 9.4 | 16.8 | 36,43 |
| | Scope 2 GHG emissions: energy indirect emissions (tonnes CO2-e) | 1,163.1 | 1,257.8 | 36,43 |
| | GHG emissions intensity (by area) (tonnes CO2-e/1,000 sq.ft.) | 8.8 | 9.5 | 36,43 |
| A1.3 | Total hazardous waste produced (tonnes) | 18.7 | 6.8 | 36,43 |
| | Intensity of total hazardous waste produced (tonnes/unit) | 0.11 | 0.03 | 36,43 |
| A1.4 | Total non-hazardous waste produced (tonnes) | 2.7 | 2.8 | 36,43 |
| | Intensity of non-hazardous waste produced (tonnes/1,000 sq.ft.) | 0.02 | 0.02 | 36,43 |
| A1.5 | Description of measures to mitigate emissions and results achieved | – | – | 35-36 |
| A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved | – | – | 36 |

[10] Scope 1 includes GHG emissions caused by mobile source fuel combustion. Besides, air conditioning equipment of Niche-Tech Shantou also involves fugitive emissions of GHG, with a carbon footprint of about 40 tonnes CO2-e. Since the composition of the refrigerant (R22) is not within the GHG regulated by the Kyoto Protocol and the HKEX Reporting Guidance on Environmental KPIs, the report does not include it in total Scope 1 emissions.

| Material Aspect | Content | KPIs for the Reporting Period | | Page Index |
|---|---|---|---|---|
| | | 2019 | 2018 | |
| **A2 Use of Resources** | | | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | – | – | 36-37 |
| A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh). | – | – | 37,44 |
| | Direct energy consumption (MWh equivalent) | 38.6 | 68.7 | 37,44 |
| | Indirect energy consumption (MWh) | 2,207.2 | 2,386.6 | 37,44 |
| | Total energy consumption intensity (MWh equivalent/1,000 sq.ft.) | 16.8 | 18.3 | 37,44 |
| A2.2 | Water consumption in total and intensity (cubic meter)[11] | 10,137 | 11,920 | 44 |
| | Water consumption intensity (cubic meter/1,000 RMB) | 0.06 | 0.05 | 44 |
| A2.3 | Description of energy use efficiency initiatives and results achieved. | – | – | 37,44 |
| A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.[12] | – | – | 37,44 |
| A2.5 | Total packaging material used for finished products (tonnes) | 14.7 | 11.4 | 37,44 |
| | Packaging material used per unit of production (tonne/million RMB) | 0.08 | 0.05 | 37,44 |
| **A3 The Environment and Natural Resources** | | | | |
| General Disclosure | Policies on minimising the issuer's significant impact on the environment and natural resources. | – | – | 37,38 |
| A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | – | – | 37,38 |

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

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

| Material Aspect | Content | Page Index |
|---|---|---|
| **B. *Social*** | | |
| **B1 Employment** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | 38 |
| **B2 Health and Safety** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | 38-39 |
| **B3 Development and Training** | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | 39 |
| **B4 Labour Standards** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | 40 |

| Material Aspect | Content | Page Index |
|---|---|---|
| **B5 Supply Chain Management** | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | 40-41 |
| **B6 Product Responsibility** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | 41 |
| **B7 Anticorruption** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | 42 |
| **B8 Community Investment** | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | 42 |

Deloitte. 德勤

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

## OPINION

We have audited the consolidated financial statements of Niche-Tech Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 53 to 119, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT 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)

<table>
<tr><td>Key audit matter</td><td>How our audit addressed the key audit matter</td></tr>
<tr><td colspan="2">Capitalisation of development costs</td></tr>
<tr><td>We identified the capitalisation of development costs as a key audit matter due to the magnitude of the amount and the significant judgment involved to determine the expenditure to be capitalised.<br><br>As disclosed in note 15 to the consolidated financial statements, additions to development costs amounted to HK$10,417,000 during the year ended 31 December 2019 and the carrying amount of development costs was HK$50,770,000 as at 31 December 2019. The Group capitalises significant costs incurred during the design and development phase of internal projects for development of new technology and new products.<br><br>Details of the criteria for the expenditure to be capitalised are disclosed in note 3 to the consolidated financial statements. The capitalisation involved management's judgment in assessing of whether technical and commercial feasibility had been achieved for each of the projects. The assessment of technical feasibility is based on the management assessment of whether successful product testing had been performed. The assessment of commercial feasibility is based on the profit forecast of each development project prepared by the management based on certain key assumptions, including revenue generated and relevant market analysis.</td><td>Our procedures in relation to capitalisation of development costs included:<br><br>• Obtaining an understanding of the key controls over the capitalisation of development costs;<br><br>• Obtaining the commercial and technical feasibility reports provided by the management and assessing the reasonableness of the commercial and technical feasibility by reference to our knowledge of the Group's business and industry and market information;<br><br>• Obtaining the progress reports and/or testing reports of projects provided by the management and enquiring the management about the technical feasibility of each new technology and product;<br><br>• Performing an analysis of expenditure incurred for each development project and enquired with the management regarding the progress of each project to determine if the criteria for capitalisation are met;<br><br>• Testing the appropriateness of expenses capitalised on a sample basis, by agreeing the material costs, overhead and technicians' hours incurred to external invoices and payroll records; and<br><br>• Obtaining profit forecast prepared by the management for each development project for those intangible assets not yet available for the use at the end of the reporting period and assess the appropriateness of key assumptions, including revenue generated and relevant market analysis from launching of the relevant products associated with the development project.</td></tr>
</table>

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Incident concerning a related party transaction*** | |
| We identified the discovery of a related party transaction (the "**Incident**") as a key audit matter due to the fact that this Incident could potentially lead to recognition of a services fee during the year ended 31 December 2019 that the Group has no contractual obligation to pay.<br><br>As explained in notes 18(c) and 33 to the consolidated financial statements, the Company entered into a service agreement with an independent third party (the "**Vendor**") in relation to the expansion and upgrade of certain of the Group's bonding wires production facilities (the "**Technical Service Agreement**") at a service fee of HK$8,500,000 which had been paid in full by December 2019. However, the management of the Company subsequently discovered that the service fee should have been borne by Chows Global Limited ("**CGL**"), a company ultimately beneficially owned by Professor Chow Chun Kay and Mr. Chow Bok Hin, Felix, directors of the Company, according to a technology implementation and license agreement entered into between a subsidiary of the Company and CGL in 2017 (the "**2017 Agreement**"). | Our procedures in relation to the Incident included the following, with assistance of our internal specialists where relevant:<br><br>• Obtaining an understanding of the background of the Incident from the management of the Company and the personnel involved in the Incident;<br><br>• Inspecting the relevant agreements which the Group entered into, and legal advice on the contractual obligation of CGL under the 2017 Agreement issued by an external lawyer to evaluate the reasonableness of management's judgments; and<br><br>• Designing and performing procedures, which included (i) background checks on the Vendor, (ii) interviews with the Group's personnel participated in the expansion and upgrade of the bonding wires production facilities and those involved in the Incident, (iii) extending the confirmation procedures to confirm the details of the arrangement under the Technical Service Agreement; (iv) performing on-site visits to inspect the production facilities and (v) checking of the bank payment advices for the amount of service fee paid. |

## OTHER INFORMATION

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

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

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

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Ip Chiu Yin.

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong

11 May 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2019*

| | NOTES | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **213,006** | 184,439 |
| Cost of sales | | **(171,321)** | (143,626) |
| Gross profit | | **41,685** | 40,813 |
| Other income, other gains and losses | 6 | **2,935** | 3,851 |
| Impairment losses under expected credit loss model, net of reversal | | **(1,106)** | (125) |
| Selling and distribution expenses | | **(12,101)** | (10,908) |
| Administrative expenses | | **(27,449)** | (19,487) |
| Listing expenses | | **–** | (10,401) |
| Finance costs | 7 | **(2,403)** | (699) |
| Profit before taxation | | **1,561** | 3,044 |
| Income tax expense | 8 | **(2,245)** | (2,694) |
| (Loss) profit for the year | 9 | **(684)** | 350 |
| **Other comprehensive (expense) income** | | | |
| *Item that will not be reclassified to profit or loss:* | | | |
| Exchange differences on translation from functional currency to presentation currency | | **(5,500)** | (11,283) |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operation | | **483** | 896 |
| Other comprehensive expense for the year | | **(5,017)** | (10,387) |
| Total comprehensive expense for the year | | **(5,701)** | (10,037) |
| (Loss) earnings per share | | | |
| – basic (HK cents) | 12 | **(0.10)** | 0.06 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2019*

| | *NOTES* | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Plant and equipment | *13* | **43,850** | 46,832 |
| Right-of-use assets | *14* | **13,458** | – |
| Intangible assets | *15* | **51,614** | 47,570 |
| Deposits paid for acquisition of plant and equipment and intangible assets | | **4,526** | 2,920 |
| Rental deposits | | **561** | 608 |
| Deferred tax assets | *16* | **2,968** | 3,093 |
| | | **116,977** | 101,023 |
| CURRENT ASSETS | | | |
| Inventories | *17* | **32,723** | 21,130 |
| Trade and bills receivables | *18(a)* | **107,889** | 74,166 |
| Other receivables, prepayments and deposits | *18(b)* | **3,770** | 3,303 |
| Amount due from a related company | *18(c)* | **8,500** | – |
| Bank deposits | *19(a)* | **38,923** | 60,096 |
| Bank balances and cash | *19(b)* | **12,862** | 15,410 |
| | | **204,667** | 174,105 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | *20* | **13,450** | 12,223 |
| Contract liabilities | *21* | **326** | 172 |
| Lease liabilities | *22* | **2,572** | – |
| Deferred income | *23* | **1,309** | 1,327 |
| Tax payable | | **1,796** | 1,399 |
| Bank borrowings | *24* | **50,406** | 13,786 |
| | | **69,859** | 28,907 |
| NET CURRENT ASSETS | | **134,808** | 145,198 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **251,785** | 246,221 |

*As at 31 December 2019*

| | *NOTES* | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | *22* | **12,845** | – |
| Deferred income | *23* | **7,513** | 9,093 |
| | | **20,358** | 9,093 |
| NET ASSETS | | **231,427** | 237,128 |
| CAPITAL AND RESERVES | | | |
| Share capital | *25* | **7,055** | 7,055 |
| Reserves | | **224,372** | 230,073 |
| | | **231,427** | 237,128 |

The consolidated financial statements on pages 53 to 119 were approved and authorised for issue by the Board of Directors on 11 May 2020 and are signed on its behalf by:

| Chow Bok Hin Felix | Chow Chun Kay Stephen |
|---|---|
| DIRECTOR | DIRECTOR |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2019*

| | Share capital HK$'000 | Share premium HK$'000 | Other reserve HK$'000 (note i) | Capital reserve HK$'000 | Exchange reserve HK$'000 | Statutory reserve HK$'000 (note ii) | Retained profits HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | – * | 30,000 | 100,000 | 1 | (3,654) | 4,193 | 11,455 | 141,995 |
| Profit for the year | – | – | – | – | – | – | 350 | 350 |
| Exchange differences arising on translation from functional currency to presentation currency | – | – | – | – | (11,283) | – | – | (11,283) |
| Exchange differences arising on translation of foreign operation | – | – | – | – | 896 | – | – | 896 |
| Total comprehensive (expense) income for the year | – | – | – | – | (10,387) | – | 350 | (10,037) |
| Issue of new shares *(note 25)* | 1,955 | 111,435 | – | – | – | – | – | 113,390 |
| Transaction costs attributable to issue of new shares | – | (8,220) | – | – | – | – | – | (8,220) |
| Issue of shares by capitalisation of share premium account | 5,100 | (5,100) | – | – | – | – | – | – |
| Transfer to statutory reserve | – | – | – | – | – | 1,583 | (1,583) | – |
| At 31 December 2018 | 7,055 | 128,115 | 100,000 | 1 | (14,041) | 5,776 | 10,222 | 237,128 |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **(684)** | **(684)** |
| Exchange differences arising on translation from functional currency to presentation currency | **–** | **–** | **–** | **–** | **(5,500)** | **–** | **–** | **(5,500)** |
| Exchange differences arising on translation of foreign operation | **–** | **–** | **–** | **–** | **483** | **–** | **–** | **483** |
| Total comprehensive expense for the year | **–** | **–** | **–** | **–** | **(5,017)** | **–** | **(684)** | **(5,701)** |
| Transfer to statutory reserve | **–** | **–** | **–** | **–** | **–** | **1,472** | **(1,472)** | **–** |
| At 31 December 2019 | **7,055** | **128,115** | **100,000** | **1** | **(19,058)** | **7,248** | **8,066** | **231,427** |

* *Less than HK$1,000*

*Notes:*

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

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

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

* *English name for identification purpose only.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2019*

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **1,561** | 3,044 |
| Adjustments for: | | |
| Finance costs | **2,403** | 699 |
| Net (gain) loss on disposal of plant and equipment | **(13)** | 14 |
| Depreciation of plant and equipment | **3,444** | 2,914 |
| Depreciation of right-of-use assets | **2,394** | – |
| Amortisation of intangible assets | **205** | 211 |
| Release of deferred income | **(1,410)** | (1,362) |
| Impairment losses under expected credit loss model, net of reversal | **1,106** | 125 |
| Bank interest income | **(898)** | (661) |
| Unrealised exchange (gains) losses | **(592)** | 1,239 |
| Operating cash flows before movements in working capital | **8,200** | 6,223 |
| (Increase) decrease in inventories | **(3,758)** | 3,713 |
| Increase in trade and bills receivables | **(54,188)** | (19,606) |
| Decrease in other receivables, prepayments and deposits | **212** | 2,875 |
| Increase in trade and other payables | **3,030** | 457 |
| Increase in contract liabilities | **160** | 37 |
| Increase in deferred income | **–** | 331 |
| Cash used in operations | **(46,344)** | (5,970) |
| Income tax paid | **(1,780)** | (2,351) |
| NET CASH USED IN OPERATING ACTIVITIES | **(48,124)** | (8,321) |
| INVESTING ACTIVITIES | | |
| Payment on behalf of a related company | **(8,500)** | – |
| Development costs paid | **(8,423)** | (9,883) |
| Deposits paid for acquisition of plant and equipment and intangible assets | **(4,526)** | (6,975) |
| Purchases of plant and equipment | **(3,812)** | (6,146) |
| Withdrawal of bank deposit | **30,000** | – |
| Interest received | **898** | 661 |
| Proceeds on disposal of plant and equipment | **20** | 52 |
| Placement of bank deposit | **–** | (30,000) |
| Purchases of intangible assets | **–** | (405) |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | **5,657** | (52,696) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2019*

| | NOTE | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| FINANCING ACTIVITIES | | | |
| Repayment of bank borrowings | | **(65,769)** | (48,071) |
| Payment of lease liabilities, including related interests | | **(3,466)** | – |
| Interests paid | | **(994)** | (633) |
| New bank borrowings | | **119,686** | 42,048 |
| Issue of shares | | **–** | 113,390 |
| Listing costs paid | | **–** | (5,490) |
| NET CASH FROM FINANCING ACTIVITIES | | **49,457** | 101,244 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **6,990** | 40,227 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **45,506** | 10,758 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **(711)** | (5,479) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | | **51,785** | 45,506 |
| Represented by: | | | |
| Bank deposits with original maturity of less than 3 months | *19(a)* | **38,923** | 30,096 |
| Bank balances and cash | | **12,862** | 15,410 |
| | | **51,785** | 45,506 |

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The immediate holding company and ultimate holding company are Niche-Tech Investment Holdings Limited and Chows Investment Group Limited respectively. Both companies are incorporated in the British Virgin Island (the "**BVI**"). The shares of the Company are listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

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

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

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

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

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

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

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

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

**New and Amendments to HKFRSs that are mandatorily effective for the current year** (continued)

***HKFRS 16 Leases***

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

*Definition of a lease*

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

*As a lessee*

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

**New and Amendments to HKFRSs that are mandatorily effective for the current year** (continued)

***HKFRS 16 Leases*** *(continued)*

*As a lessee (continued)*

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant group entities is 5%.

| | **At 1 January 2019** HK$'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 22,355 |
| Add: Change in allocation basis between lease and non-lease components | 866 |
| Less: Recognition exemption – short-term lease | (31) |
| | 23,190 |
| Lease liabilities discounted at relevant incremental borrowing rates as at 1 January 2019 | 18,716 |
| Analysed as | |
| Current | 2,861 |
| Non-current | 15,855 |
| | 18,716 |

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

| | **Right-of-use assets** HK$'000 |
|---|---|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 18,716 |
| Less: Accrued lease liability at 1 January 2019 *(note)* | (1,582) |
| | 17,134 |

*Note:* The carrying amount of right-of-use assets as at 1 January 2019 comprises of accrued lease liability amounting to HK$1,582,000 as at 1 January 2019. This relates to accrued lease liability of an operating lease of a property in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liability under trade and other payables as at 1 January 2019 was adjusted to right-of-use assets at transition.

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

**New and Amendments to HKFRSs that are mandatorily effective for the current year** (continued)

***HKFRS 16 Leases*** *(continued)*

*As a lessee (continued)*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | **Carrying amounts previously reported at 31 December 2018** | **Adjustments** | **Carrying amounts under HKFRS 16 at 1 January 2019** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Right-of-use assets | – | 17,134 | 17,134 |
| Lease liabilities | – | 18,716 | 18,716 |
| Trade and other payables – accrued lease liability | 1,582 | (1,582) | – |

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

Right-of-use assets of HK$17,134,000 as at 1 January 2019 relating to operating leases were recognised upon application of HKFRS 16.

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

### New and Amendments to HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts[1] |
| Amendments to HKFRS 3 | Definition of a Business[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[4] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[4] |

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The principal accounting policies adopted are as follows:

### Basis of consolidation

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue from contracts with customers

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

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

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

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

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

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

#### *Sale with a right of return/exchange*

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

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

(b) a refund liability/contract liability; and

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases

***Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)***

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

***The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)***

*Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates 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.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

*Short-term leases*

The Group applies the short-term lease recognition exemption to leases of staff quarters that have a lease term of twelve months or less from the commencement date and does not contain a purchase option.

*Right-of-use assets*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases** (continued)

***The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)*** *(continued)*

*Right-of-use assets (continued)*

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

*Refundable rental deposits*

Refundable rental deposits paid are accounted for under HKFRS 9 *Financial Instruments* ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

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

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases** (continued)

***The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)*** *(continued)*

*Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified 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.

***The Group as lessee (prior to 1 January 2019)***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

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

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

### Borrowing costs

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

### Government grants

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and the state-managed retirement benefits scheme are charged as an expense when employees have rendered service entitling them to the contributions.

### Short-term employee benefits

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

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

### Taxation

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

### Plant and equipment

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

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets

#### *Intangible assets acquired separately*

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

#### *Internally-generated intangible assets – research and development expenditure*

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment on plant and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

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

### Equity-settled share-based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve. When share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

### Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contracts with Customers* ("**HKFRS 15**"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets***

*Classification and subsequent measurement of financial assets*

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All the Group's financial assets are subsequently measured at amortised cost.

*Amortised cost and interest income*

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

*Impairment of financial assets*

The Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade and bills receivables, other receivables and deposits, amount due from a related company, bank deposits and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets*** *(continued)*

*Impairment of financial assets (continued)*

The Group always recognises lifetime ECL for trade and bills receivables. The ECL on these assets are assessed individually for credit-impaired debtors and collectively for the remaining using a provision matrix internal credit rating groupings based on historical default rate, repayment status and forward-looking information.

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets*** *(continued)*

*Impairment of financial assets (continued)*

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

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

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

*(ii) Definition of default*

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

*(iii) Credit-impaired financial assets*

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets*** *(continued)*

*Impairment of financial assets (continued)*

(iv) *Write-off policy*

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

(v) *Measurement and recognition of ECL*

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

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

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

- Nature of financial instruments (i.e. the Group's trade and bills receivables excluding those credit-impaired debtors which are assessed individually);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets*** *(continued)*

*Impairment of financial assets (continued)*

*(v) Measurement and recognition of ECL (continued)*

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

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

*Derecognition of financial assets*

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

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

***Financial liabilities and equity***

*Classification as debt or equity*

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

*Equity instruments*

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

*Financial liabilities*

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

*Derecognition of financial liabilities*

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

### Capitalisation of development costs

As at 31 December 2019, the carrying amount of the Group's development costs are HK$50,770,000 (2018: HK$46,503,000). The capitalisation involves management's judgment in assessing whether technical and commercial feasibility can be achieved. Technical feasibility are evaluated based on testing results of products and commercial feasibility are evaluated based on forecasts with assumptions on revenue to be generated and relevant market analysis of the relevant products.

### Impairment assessment of intangible assets not yet available for use

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

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

As at 31 December 2019, the carrying amount of intangible assets not yet available for use was HK$7,332,000 (2018: HK$14,224,000).

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Provision of ECL for trade and bills receivables

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

The provision of ECL is sensitive to changes in estimates. The information about ECL and the Group's trade and bills receivables is disclosed in notes 18(a) and 30(b).

### Recognition of deferred taxation

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

In accounting for deferred tax assets on deferred income in respect of government grants, in case where the expected timing of release of deferred income is different from the previous expectation, an adjustment on the opening deferred tax assets may arise, and will be recognised in profit or loss in the period in which such expectation is revised. As at 31 December 2019, the carrying amount of deferred tax assets on deferred income in respect of government grants was HK$2,075,000 (2018: HK$2,309,000).

## 5. REVENUE AND SEGMENT INFORMATION

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

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

Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A contract liability is recognised for sales in which revenue has yet been recognised.

## 5. REVENUE AND SEGMENT INFORMATION (continued)

An analysis of revenue by major products is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bonding wire | **170,927** | 142,649 |
| Encapsulant | **27,069** | 28,731 |
| Others | **15,010** | 13,059 |
| | **213,006** | 184,439 |

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

### Geographical information

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| PRC excluding Hong Kong | **211,475** | 180,045 |
| Hong Kong | **1,531** | 4,394 |
| | **213,006** | 184,439 |

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| PRC excluding Hong Kong | **105,466** | 93,907 |
| Hong Kong | **7,982** | 3,415 |
| | **113,448** | 97,322 |

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### Information about major customers

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **47,684** | 55,536 |
| Customer B | **22,027** | N/A* |

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

## 6. OTHER INCOME, OTHER GAINS AND LOSSES

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank interest income | **898** | 661 |
| Government subsidy income *(note)* | **1,701** | 1,634 |
| Net gain (loss) on disposal of plant and equipment | **13** | (14) |
| Net foreign exchange gains | **308** | 1,569 |
| Others | **15** | 1 |
| | **2,935** | 3,851 |

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

## 7. FINANCE COSTS

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interests on bank borrowings | **994** | 633 |
| Interests on discounted bills with recourse | **648** | 66 |
| Interests on lease liabilities | **761** | – |
| | **2,403** | 699 |

## 8. INCOME TAX EXPENSE

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| The income tax expense comprises: | | |
| PRC EIT tax: | | |
| Current year | **2,488** | 2,629 |
| Overprovision in prior years | **(290)** | (367) |
| Deferred tax *(note 16)* | **47** | 432 |
| | **2,245** | 2,694 |

Under the Law of the PRC on Enterprise Income Tax ("**EIT Law**") and Implementation Regulation of the EIT Law, the standard tax rate of PRC entities is 25% for both years. Pursuant to the relevant laws and regulations in the PRC, Niche-Tech Shantou is granted tax incentive as a High and New Technology Enterprise and is entitled to a concessionary tax rate of 15% for 3 years from 2018 to 2020.

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

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

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Profit before taxation | **1,561** | 3,044 |
| Tax at PRC EIT rate of 15% *(note)* | **234** | 457 |
| Tax effect of expenses not deductible for tax purpose | **1,498** | 2,353 |
| Tax effect of income not taxable for tax purpose | **(299)** | (628) |
| Tax effect of tax losses not recognised | **1,102** | 608 |
| Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate on the release of deferred income | **–** | 271 |
| Overprovision in prior years | **(290)** | (367) |
| Income tax expense for the year | **2,245** | 2,694 |

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

## 9. (LOSS) PROFIT FOR THE YEAR

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| (Loss) profit for the year has been arrived at after charging: | | |
| Directors' remuneration | | |
| Fees | **480** | 280 |
| Other emoluments, salaries and other benefits | **3,581** | 2,405 |
| Retirement benefit scheme contributions | **68** | 68 |
| | **4,129** | 2,753 |
| Other staff costs: | | |
| Staff salaries and allowances | **25,877** | 21,139 |
| Retirement benefit scheme contributions | **3,197** | 3,508 |
| | **29,074** | 24,647 |
| Total staff costs | **33,203** | 27,400 |
| Capitalised in intangible assets | **(4,175)** | (3,939) |
| Capitalised in inventories | **(8,945)** | (8,143) |
| | **20,083** | 15,318 |
| Depreciation of plant and equipment | **8,067** | 7,550 |
| Capitalised in intangible assets | **(1,744)** | (1,708) |
| Capitalised in inventories | **(2,879)** | (2,928) |
| | **3,444** | 2,914 |
| Amortisation of intangible assets | **5,316** | 4,224 |
| Capitalised in inventories | **(5,111)** | (4,013) |
| | **205** | 211 |
| Depreciation of right-of-use assets | **3,120** | – |
| Capitalised in intangible assets | **(250)** | – |
| Capitalised in inventories | **(476)** | – |
| | **2,394** | – |
| Auditor's remuneration | **2,200** | 1,000 |
| Cost of inventories recognised as cost of sales | **171,321** | 143,626 |
| Research and development costs (excluding staff costs and depreciation of plant and equipment) recognised as expenses (included in administrative expenses) | **803** | 266 |
| Minimum operating lease rentals in respect of rented premises | **46** | 3,379 |

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Executive directors and chief executive

Mr. Chow, Professor Chow and Mr. Shi Yiwu ("**Mr. Shi**") are executive directors of the Company. Mr. Chow is also the chief executive of the Group and his emoluments disclosed below included those for services rendered by him as the chief executive.

Directors' and chief executive's remuneration paid or payable, including emoluments for the services as employees of the Group entities, disclosed pursuant to the applicable Listing Rules and Companies Ordinance is as follows:

**For the year ended 31 December 2019**

| | Directors' fees HK$'000 | Salaries and allowances HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Mr. Chow | – | 2,256 | 18 | 2,274 |
| Professor Chow | – | 1,056 | 10 | 1,066 |
| Mr. Shi | – | 269 | 40 | 309 |
| | – | 3,581 | 68 | 3,649 |

**For the year ended 31 December 2018**

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

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

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (b) Non-executive director

**For the year ended 31 December 2019**

| | Director's fees HK$'000 | Salaries and allowances HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Mr. Ma Yung King Leo | **120** | **–** | **–** | **120** |

**For the year ended 31 December 2018**

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

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

### (c) Independent non-executive directors

**For the year ended 31 December 2019**

| | Directors' fees HK$'000 | Salaries and allowances HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Professor Ng Wang Wai Charles | **120** | **–** | **–** | **120** |
| Dr. Cheng Faat Ting Gary *(note a)* | **60** | **–** | **–** | **60** |
| Mr. Poon Lai Yin Michael *(note b)* | **60** | **–** | **–** | **60** |
| Mr. Tai Chun Kit | **120** | **–** | **–** | **120** |
| | **360** | **–** | **–** | **360** |

*Notes:*

(a) Resigned on 28 June 2019

(b) Appointed on 28 June 2019

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (c) Independent non-executive directors (continued)

**For the year ended 31 December 2018**

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

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

The five highest paid individuals of the Group included two directors (2018: two directors) of the Company for the year ended 31 December 2019 and details of their emoluments are set out in note 10(a). The emoluments of the remaining individuals are as follows:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Salaries and allowances | **1,667** | 1,403 |
| Retirement benefit scheme contributions | **45** | 96 |
| | **1,712** | 1,499 |

The emoluments were within the following band:

| | **Number of employees** | |
|---|---|---|
| | **2019** | 2018 |
| Nil to HK$1,000,000 | **3** | 3 |

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

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

## 11. DIVIDENDS

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

## 12. (LOSS) EARNINGS PER SHARE

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| **(Loss) earnings** | | |
| (Loss) earnings for the purposes of basic (loss) earnings per share: | | |
| (Loss) profit for the year attributable to owners of the Company | **(684)** | 350 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | **705,500,000** | 625,693,151 |

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2018 had been adjusted for the effect of the capitalisation issue, as set out in note 25, as if the capitalisation issue had been effective on 1 January 2018.

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

## 13. PLANT AND EQUIPMENT

| | Plant and machinery HK$'000 | Furniture, fixture and equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| At 1 January 2018 | 70,022 | 669 | 14,363 | 1,329 | 481 | 86,864 |
| Additions | 11,078 | 113 | 5,481 | – | 100 | 16,772 |
| Transfer | – | – | 474 | – | (474) | – |
| Disposals | (468) | – | – | (53) | – | (521) |
| Exchange realignment | (3,995) | (28) | (958) | (66) | (11) | (5,058) |
| At 31 December 2018 | 76,637 | 754 | 19,360 | 1,210 | 96 | 98,057 |
| Additions | 4,301 | 48 | 638 | – | 1,021 | 6,008 |
| Transfer | – | – | 96 | – | (96) | – |
| Disposals | – | – | – | (68) | – | (68) |
| Exchange realignment | (1,635) | (12) | (408) | (23) | (17) | (2,095) |
| At 31 December 2019 | **79,303** | **790** | **19,686** | **1,119** | **1,004** | **101,902** |
| DEPRECIATION | | | | | | |
| At 1 January 2018 | 38,874 | 420 | 6,430 | 1,050 | – | 46,774 |
| Provided for the year | 4,740 | 64 | 2,684 | 62 | – | 7,550 |
| Eliminated on disposals | (407) | – | – | (48) | – | (455) |
| Exchange realignment | (2,140) | (21) | (428) | (55) | – | (2,644) |
| At 31 December 2018 | 41,067 | 463 | 8,686 | 1,009 | – | 51,225 |
| Provided for the year | 4,749 | 43 | 3,237 | 38 | – | 8,067 |
| Eliminated on disposals | – | – | – | (61) | – | (61) |
| Exchange realignment | (918) | (9) | (232) | (20) | – | (1,179) |
| At 31 December 2019 | **44,898** | **497** | **11,691** | **966** | **–** | **58,052** |
| CARRYING VALUES | | | | | | |
| At 31 December 2019 | **34,405** | **293** | **7,995** | **153** | **1,004** | **43,850** |
| At 31 December 2018 | 35,570 | 291 | 10,674 | 201 | 96 | 46,832 |

## 13. PLANT AND EQUIPMENT (continued)

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

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

## 14. RIGHT-OF-USE ASSETS

| | **Leased properties** HK$'000 |
|---|---|
| **As at 1 January 2019** | |
| Carrying amount | 17,134 |
| **As at 31 December 2019** | |
| Carrying amount | 13,458 |
| **For the year ended 31 December 2019** | |
| Depreciation charge | (3,120) |
| Exchange realignment | (251) |
| Expenses relating to a short-term lease | 46 |
| Total cash outflow for leases | 3,512 |
| Remeasurement of right-of-use assets due to lease modification | (305) |

During the year ended 31 December 2019, a lessor agreed to provide a rent concession on an operating lease for the six months from 1 October 2019 to 31 March 2020. There was no change in the lease term of the modified lease and the Group remeasured the lease liability by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

For both years, the Group leases various offices and factories for its operations. Lease contracts are entered into for fixed terms of 13 months to 22 years without any renewal and termination options. Lease terms are negotiated on an individual basis. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Details of the lease maturity analysis of lease liabilities are set out in note 22.

## 15. INTANGIBLE ASSETS

| | **Patent and trademark** HK$'000 | **Computer software** HK$'000 | **Development costs** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 January 2018 | 1,212 | 548 | 45,910 | 47,670 |
| Additions | – | 405 | 11,591 | 11,996 |
| Exchange realignment | (61) | (43) | (2,775) | (2,879) |
| At 31 December 2018 | 1,151 | 910 | 54,726 | 56,787 |
| Additions | – | – | 10,417 | 10,417 |
| Exchange realignment | (22) | (19) | (1,293) | (1,334) |
| At 31 December 2019 | **1,129** | **891** | **63,850** | **65,870** |
| AMORTISATION | | | | |
| At 1 January 2018 | 619 | 214 | 4,600 | 5,433 |
| Provided for the year | 120 | 91 | 4,013 | 4,224 |
| Exchange realignment | (36) | (14) | (390) | (440) |
| At 31 December 2018 | 703 | 291 | 8,223 | 9,217 |
| Provided for the year | 115 | 90 | 5,111 | 5,316 |
| Exchange realignment | (16) | (7) | (254) | (277) |
| At 31 December 2019 | **802** | **374** | **13,080** | **14,256** |
| CARRYING VALUES | | | | |
| At 31 December 2019 | **327** | **517** | **50,770** | **51,614** |
| At 31 December 2018 | 448 | 619 | 46,503 | 47,570 |

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

Except for those intangible assets not yet available for use, the above intangible assets have finite useful lives and are amortised on a straight-line basis at rates as follows:

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

Included in development costs is an amount of HK$11,832,000 (2018: HK$13,889,000) representing development cost capitalised for a silicon encapsulant project. The project enhances the production of silicon encapsulant. The net carrying amount will therefore be amortised over the remaining useful lives of 6 (2018: 7) years.

As at 31 December 2019, development costs amounting to HK$7,332,000 (2018: HK$14,224,000) related to development projects in progress for the development of products and production techniques that are not yet available for use.

## 16. DEFERRED TAX ASSETS

The following is the major deferred tax assets (liability) recognised and movements thereon during the current and prior year:

| | **Allowance for doubtful debts** | **Deferred income in respect of government grants** | **Right-of-use assets** | **Lease liabilities** | **Accruals** | **Total** |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 *(note 23)* | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2018 | 403 | 2,861 | – | – | 433 | 3,697 |
| Effect of decrease in applicable tax rate on the release of deferred income | – | (271) | – | – | – | (271) |
| (Charge) credit to profit or loss | (14) | (151) | – | – | 4 | (161) |
| Exchange realignment | (16) | (130) | – | – | (26) | (172) |
| At 31 December 2018 | **373** | **2,309** | **–** | **–** | **411** | **3,093** |
| Effect of lease modification | **–** | **–** | **(325)** | **325** | **–** | **–** |
| Credit (charge) to profit or loss | **145** | **(192)** | **57** | **(57)** | **–** | **(47)** |
| Exchange realignment | **(12)** | **(42)** | **–** | **–** | **(24)** | **(78)** |
| At 31 December 2019 | **506** | **2,075** | **(268)** | **268** | **387** | **2,968** |

As at 31 December 2019, the Group had unused tax losses of HK$23,967,000 (2018: HK$16,619,000) available to offset against future profits. No deferred tax asset had been recognised in respect of such unused tax losses due to the unpredictability of future profit streams. The tax losses as at 31 December 2019 and 2018 might be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation had not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained earnings of Niche-Tech Shantou amounting to HK$59,200,000 as at 31 December 2019 (2018: HK$48,196,000) as the Group was in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 17. INVENTORIES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Raw materials and consumables | **3,721** | 2,751 |
| Work in progress | **15,398** | 9,228 |
| Finished goods | **13,604** | 9,151 |
| | **32,723** | 21,130 |

## 18. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS AND AMOUNT DUE FROM A RELATED COMPANY

### (a) Trade and bills receivables

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade receivables | **64,771** | 58,318 |
| Less: Allowance for credit losses | **(3,562)** | (2,527) |
| | **61,209** | 55,791 |

As at 1 January 2018, trade and bills receivables from contracts with customers amounted to HK$58,362,000.

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

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 1 – 30 days | **21,380** | 16,492 |
| 31 – 60 days | **14,714** | 11,193 |
| 61 – 90 days | **9,735** | 8,811 |
| Over 90 days | **15,380** | 19,295 |
| | **61,209** | 55,791 |

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

## 18. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS AND AMOUNT DUE FROM A RELATED COMPANY (continued)

### (a) Trade and bills receivables (continued)

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate net carrying amount of HK$14,352,000 (2018: HK$16,566,000) which are past due as at the reporting date. Out of the past due balance, HK$6,129,000 (2018: HK$11,924,000) has been past due for 90 days or more and is not considered as in default as there are long term/on-going relationship and good repayment records from these customers. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and bills receivables for the year ended 31 December 2019 are set out in note 30(b).

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

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| United States Dollars ("**US$**") | **231** | 315 |
| RMB | **5,135** | 2,483 |
| | **5,366** | 2,798 |

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Bills receivables | **46,712** | 18,404 |
| Less: Allowance for credit losses | **(32)** | (29) |
| | **46,680** | 18,375 |

## 18. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS AND AMOUNT DUE FROM A RELATED COMPANY (continued)

### (a) Trade and bills receivables (continued)

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 1 – 30 days | **11,716** | 4,948 |
| 31 – 60 days | **6,687** | 5,292 |
| 61 – 90 days | **7,156** | 2,508 |
| Over 90 days | **21,121** | 5,627 |
| | **46,680** | 18,375 |

The maturity period of all bills receivables as at 31 December 2019 and 2018 was within 365 days.

As at 31 December 2019, bills receivables of HK$34,909,000 (2018: Nil) were transferred to banks by discounting these receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a bank borrowing (note 24). These bills receivables are carried at amortised cost in the Group's consolidated statement of financial position.

Details of impairment assessment of bills receivables for the year ended 31 December 2019 are set out in note 30(b).

### (b) Other receivables, prepayments and deposits

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Value-added tax recoverable | **1,637** | 2,188 |
| Prepayments | **609** | 583 |
| Deposits | **99** | 168 |
| Other receivables | **1,425** | 364 |
| | **3,770** | 3,303 |

## 18. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS AND AMOUNT DUE FROM A RELATED COMPANY (continued)

### (b) Other receivables, prepayments and deposits (continued)

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| HK$ | **489** | 483 |

Details of impairment assessment of other receivables and deposits for the year ended 31 December 2019 are set out in note 30(b).

### (c) Amount due from a related company

| | As at | | | Maximum amount outstanding during the year ended | |
|---|---|---|---|---|---|
| | 1 January 2018 | 31 December 2018 | **31 December 2019** | **31 December 2019** | 31 December 2018 |
| | HK$'000 | HK$'000 | **HK$'000** | **HK$'000** | HK$'000 |
| Chows Global Limited ("**CGL**") | – | – | **8,500** | **8,500** | – |

The amount is unsecured, interest free and has no fixed repayment term. Details of which are set out in note 33. The amount was repaid in full by CGL in March 2020.

Professor Chow and Mr. Chow are the ultimate beneficial owners of CGL.

## 19. BANK DEPOSITS/BANK BALANCES AND CASH

### (a) Bank deposits

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Bank deposits with original maturity of less than 3 months | **38,923** | 30,096 |
| Bank deposit with original maturity of more than 3 months | **–** | 30,000 |
| | **38,923** | 60,096 |

Bank deposits carry fixed interests at market rate from 1.51% to 2.38% per annum (2018: 1.51% to 2.00%).

### (b) Bank balances and cash

Bank balances carried interest at market rates which range from 0.00% to 0.30% (2018: 0.00% to 0.42%) per annum as at 31 December 2019.

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

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| HK$ | **121** | 221 |
| US$ | **309** | 142 |
| RMB | **2** | 4 |
| | **432** | 367 |

## 20. TRADE AND OTHER PAYABLES

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Trade payables | **7,023** | 7,350 |
| Other payables | **537** | 768 |
| Accrued expenses | **5,890** | 4,105 |
| | **13,450** | 12,223 |

## 20. TRADE AND OTHER PAYABLES (continued)

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 1 – 30 days | **5,373** | 5,510 |
| 31 – 60 days | **881** | 919 |
| 61 – 90 days | **334** | 496 |
| Over 90 days | **435** | 425 |
| | **7,023** | 7,350 |

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

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| US$ | **1,447** | 1,018 |
| HK$ | **398** | 160 |
| RMB | **3** | – |

## 21. CONTRACT LIABILITIES

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Amount received in advance of delivery for semiconductor packaging materials | **326** | 172 |

As at 1 January 2018, contract liabilities amounted to HK$144,000.

All unsatisfied performance obligations for sales of semiconductor packaging materials as at the end of reporting period are expected to be satisfied within one year.

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

During the year ended 31 December 2019, revenue of HK$172,000 (2018: HK$142,000) was recognised and was included in the contract liabilities balance at the beginning of that year.

## 22. LEASE LIABILITIES

| | **2019** **HK$'000** |
|---|---|
| **Lease liabilities payable:** | |
| Within one year | **2,572** |
| Within a period of more than one year but not more than two years | **1,435** |
| Within a period of more than two years but not more than five years | **3,939** |
| Within a period of more than five years | **7,471** |
| | **15,417** |
| Less: Amount due for settlement with 12 months shown under current liabilities | **(2,572)** |
| Amount due for settlement after 12 months shown under non-current liabilities | **12,845** |

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | **2019** **HK$'000** |
|---|---|
| HK$ | **1,764** |

## 23. DEFERRED INCOME

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Balance at beginning of the year | **10,420** | 12,022 |
| Released to profit or loss *(note i)* | **(1,410)** | (1,362) |
| Government grants received *(note ii)* | **–** | 331 |
| Exchange realignment | **(188)** | (571) |
| Balance at end of the year | **8,822** | 10,420 |

## 23. DEFERRED INCOME (continued)

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Deferred income | **8,822** | 10,420 |
| Less: Amount to be recognised as income within one year included in current liabilities | **(1,309)** | (1,327) |
| Amount to be recognised as income after one year | **7,513** | 9,093 |

*Notes:*

(i) As at 31 December 2019 and 2018, the deferred income represents government grants received in advance from the relevant government authorities of the PRC for the development of products and production techniques. For a grant related to assets, the amount will be recognised as income over the remaining useful life of the development costs recognised for the development of product and production technique starting from the time when the product and production technique is approved by the relevant government authorities.

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

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

## 24. BANK BORROWINGS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Carrying amounts of bank borrowings based on scheduled repayment dates set out in the loan agreements within one year | **50,406** | 13,786 |
| Analysed as: | | |
| Amounts that contain a repayable on demand clause (shown under current liabilities) and repayable within one year | **50,406** | 13,786 |
| Secured | **34,909** | – |
| Unsecured | **15,497** | 13,786 |
| | **50,406** | 13,786 |

## 24. BANK BORROWINGS (continued)

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Variable-rate bank borrowings | **15,497** | 13,786 |
| Fixed-rate bank borrowings | **34,909** | – |
| | **50,406** | 13,786 |

As at 31 December 2019, the Group's variable-rate bank borrowings carried interests at 2.80% over Hong Kong Interbank Offered Rate ("**HIBOR**") per annum (2018: 2.80% over HIBOR per annum) quoted by certain banks in Hong Kong. The effective interest rates are at 4.84% (2018: 4.93%) per annum as at 31 December 2019.

The Group's fixed-rate borrowings as at 31 December 2019 carried interests at effective rates (which were also the contracted rates) of 4.04% per annum.

At 31 December 2019, bank borrowing of HK$34,909,000 (2018: nil) were secured on bills receivables of the same amount (note 18 (a)).

## 25. SHARE CAPITAL

| | Number of shares | Share capital<br>HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| **Authorised:** | | |
| At 1 January 2018 | 38,000,000 | 380 |
| Increase in authorised share capital on 30 May 2018 *(note i)* | 1,962,000,000 | 19,620 |
| At 31 December 2018 and 31 December 2019 | 2,000,000,000 | 20,000 |
| **Issued and fully paid:** | | |
| At 1 January 2018 | 2,000 | –* |
| Issue of shares by capitalisation of share premium account *(note ii)* | 509,998,000 | 5,100 |
| Issue of new shares *(note iii)* | 195,500,000 | 1,955 |
| At 31 December 2018 and 31 December 2019 | 705,500,000 | 7,055 |

* *Less than HK$1,000*

## 25. SHARE CAPITAL (continued)

*Notes:*

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

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

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

## 26. RETIREMENT BENEFIT SCHEMES

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

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

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

The only obligation of the Group with respect to these retirement benefit schemes is to make the specified contributions. During the years ended 31 December 2019 and 2018, the total amounts contributed by the Group to the schemes and costs charged to the profit or loss and capitalised as intangible assets represent contributions paid or payable to the schemes by the Group. The retirement benefit scheme contributions made by the Group amounted to HK$3,265,000 (2018: HK$3,576,000) for the year ended 31 December 2019.

## 27. OPERATING LEASES

### The Group as lessee

The Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 2018<br>HK$'000 |
|---|---|
| Minimum lease payments under operating leases: | |
| Within one year | 3,266 |
| In the second to fifth year inclusive | 8,475 |
| More than five years | 10,614 |
| | 22,355 |

Operating lease payments represented rentals payable by the Group for factory premises and office properties. Leases were negotiated and rentals were fixed for a range of 13 months to 22 years.

## 28. CAPITAL COMMITMENTS

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of: | | |
| – intangible assets | **2,530** | 251 |
| – plant and equipment | **708** | 534 |
| | **3,238** | 785 |

## 29. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 24 and lease liabilities in note 22, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

## 30. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Amortised cost | **170,259** | 150,658 |
| **Financial liabilities** | | |
| Amortised cost | **57,966** | 21,904 |

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

The Group's major financial instruments include trade and bills receivables, other receivables and deposits, amount due from a related company, bank deposits, bank balances and cash, trade and other payables and bank borrowings.

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

***Market risk***

*Currency risk*

Certain of the Group's trade and other receivables, bank balances and cash, trade and other payables and lease liabilities are denominated in currencies other than the functional currencies of the respective group entities, which expose the respective group entities to foreign currency risk. In addition, intra-group balances between group entities denominated in foreign currency also expose the Group to foreign currency risk.

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

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

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2019<br>HK$'000 | 2018<br>HK$'000 | 2019<br>HK$'000 | 2018<br>HK$'000 |
| US$ | **540** | 457 | **1,447** | 1,018 |
| RMB | **5,137** | 2,487 | **3** | – |
| HK$ | **610** | 704 | **2,162** | 160 |

## 30. FINANCIAL INSTRUMENTS (continued)

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

***Market risk*** *(continued)*

*Currency risk (continued)*

*Sensitivity analysis*

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

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% is the sensitivity rate used in the management's assessment of the reasonably possible change in the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, including intra-group balances, and adjusts their translation at the end of each of the reporting periods for a 5% change in the functional currencies of the relevant group entities. A positive number below indicates an increase in post-tax loss or a decrease in post-tax profit where the functional currencies of the relevant group entities strengthen 5% against the relevant foreign currencies. For a 5% weakening of the functional currencies of the relevant group entities, there would be an equal and opposite impact on the post-tax profit. In the management's opinion, the currency risk for USD against HK$ is minimal as Hong Kong monetary Authority Imposed Limited Exchange Rate System to maintain a stable exchange rate between USD and HK$.

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Impact on post-tax loss or profit | | |
| US$ | **(25)** | (9) |
| RMB | **377** | 270 |
| HK$ | **1,409** | 2,399 |

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

*Interest rate risk*

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

*Sensitivity analysis*

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

## 30. FINANCIAL INSTRUMENTS (continued)

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

***Market risk*** *(continued)*

*Interest rate risk (continued)*

*Sensitivity analysis (continued)*

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2019 would increase/decrease by HK$65,000 (2018: post tax profit decrease/increase by HK$58,000).

***Credit risk and impairment assessment***

As at 31 December 2019, the financial assets whose carrying amounts best represent the maximum exposure to credit risk.

*Trade and bills receivables*

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade and bills receivables, individually for credit-impaired debtors and collectively for the remaining debtors based on provision matrix. Credit risk associated with bills receivables is mitigated because the bills are issued by reputable financial institutions. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

*Other receivables and deposits, rental deposits, bank deposits, bank balances and amount due from a related company*

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

For other receivables and deposits, rental deposits and amount due from a related company, the directors of the Company make periodic individual assessment on the recoverability of these balances based on historical settlement records, past experience, and/or also quantitative and qualitative information that is reasonable and supportive forward-looking information. In addition, payment on behalf of a related company is only made when the Group expects that the related company will settle the outstanding balance. The directors of the Company believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provides ECL based on 12m ECL. For the years ended 31 December 2019 and 2018, the Group assessed that the 12m ECL for other receivables and amount due from a related company was insignificant and thus no allowance for credit loss was recognised.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 91% (31 December 2018: 94%) of the total trade receivables as at 31 December 2019.

The Group has concentration of credit risk as 7% (2018: 10%) and 51% (2018: 37%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

## 30. FINANCIAL INSTRUMENTS (continued)

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

***Credit risk and impairment assessment** (continued)*

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

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

| Internal credit rating | Description | Trade and bills receivables | Other financial assets |
|---|---|---|---|
| Low risk | The debtor has historically made payments on time, the exposure at default is still remote. | Lifetime ECL – not credit-impaired | 12m ECL |
| Watch list | The debtor has historically failed to make payments within the credit term but there is no indicator of default. | Lifetime ECL – not credit-impaired | 12m ECL |
| Doubtful | The debtor has past due exceeding the credit period and the ability of repayment is uncertain, but there is supportable information for the debtor, including but not limited to settlement during the year, that the amount is not considered credit-impaired. | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired. | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery. | Amount is written off | Amount is written off |

## 30. FINANCIAL INSTRUMENTS (continued)

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

***Credit risk and impairment assessment** (continued)*

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

| | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount 2019 HK$'000 | Gross carrying amount 2018 HK$'000 |
|---|---|---|---|---|
| **Financial assets at amortised costs** | | | | |
| Bank deposits | Low risk | 12m ECL | **38,923** | 60,096 |
| Bank balances | Low risk | 12m ECL | **12,847** | 15,362 |
| Other receivables and deposits | Low risk | 12m ECL | **1,524** | 378 |
| Rental deposits | Low risk | 12m ECL | **561** | 608 |
| Amount due from a related company | Low risk | 12m ECL | **8,500** | – |
| Trade receivables | *(Note)* | Lifetime ECL | **62,434** | 57,202 |
| | Loss | Credit impaired | **2,337** | 1,116 |
| Bills receivables | *(Note)* | Lifetime ECL | **46,712** | 18,404 |

*Note:* For trade and bills receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Trade and bills receivables with credit-impaired balances are assessed individually. The Group determines the expected credit losses on the remaining trade and bills receivables collectively by using a provision matrix, grouped by internal credit rating.

*Provision matrix – internal credit rating*

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk for those trade and bills receivables (excluding trade and bills receivables which are credit-impaired) which are assessed collectively based on provision matrix as at 31 December 2019 within lifetime ECL (not credit-impaired). Debtors with credit-impaired with gross carrying amount of HK$2,337,000 (2018: HK$1,116,000) as at 31 December 2019 were assessed individually.

## 30. FINANCIAL INSTRUMENTS (continued)

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

***Credit risk and impairment assessment*** *(continued)*

*Provision matrix – internal credit rating (continued)*

*Gross carrying amount*

| Internal credit rating | Average loss rate | Trade receivables as at 31 December 2019 HK$'000 | Trade receivables as at 31 December 2018 HK$'000 |
|---|---|---|---|
| Low risk | 0.10% | **17,437** | 12,563 |
| Watch list | 2.15% | **39,146** | 37,614 |
| Doubtful | 6.28% | **5,851** | 7,025 |
| | | **62,434** | 57,202 |

| Internal credit rating | Average loss rate | Bills receivables as at 31 December 2019 HK$'000 | Bills receivables as at 31 December 2018 HK$'000 |
|---|---|---|---|
| Low risk | 0.04% | **43,940** | 13,774 |
| Watch list | 0.50% | **2,772** | 4,630 |
| | | **46,712** | 18,404 |

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

During the year ended 31 December 2019, the Group provided a net impairment allowance of HK$1,103,000 (2018: HK$121,000) for trade receivables and net impairment allowance of HK$3,000 (2018: HK$4,000) on bills receivables, based on the provision matrix and/or individual assessment.

## 30. FINANCIAL INSTRUMENTS (continued)

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

***Credit risk and impairment assessment** (continued)*

*Provision matrix – internal credit rating (continued)*

*Gross carrying amount (continued)*

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

| | **Lifetime ECL (not credit-impaired)** HK$'000 | **Lifetime ECL (credit-impaired)** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| As at 1 January 2018 | 1,273 | 1,458 | 2,731 |
| Impairment losses recognised | 1,317 | – | 1,317 |
| Impairment losses reversed | (1,090) | (102) | (1,192) |
| Amounts written off as uncollectible | – | (177) | (177) |
| Exchange adjustments | (60) | (63) | (123) |
| As at 31 December 2018 | 1,440 | 1,116 | 2,556 |
| Impairment losses recognised | 1,396 | 1,202 | 2,598 |
| Impairment losses reversed | (1,440) | (52) | (1,492) |
| Exchange adjustments | (139) | 71 | (68) |
| As at 31 December 2019 | **1,257** | **2,337** | **3,594** |

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

***Liquidity risk***

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

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

## 30. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk*** *(continued)*

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

*Liquidity tables*

| | Weighted average effective interest rate | On demand or less than 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 31 December 2019 | | | | | | | | |
| Trade and other payables | – | **5,910** | **1,215** | **431** | **4** | **–** | **7,560** | **7,560** |
| Fixed rate bank borrowings | 4.04 | **34,909** | **–** | **–** | **–** | **–** | **34,909** | **34,909** |
| Variable-rate bank borrowings | 4.84 | **15,497** | **–** | **–** | **–** | **–** | **15,497** | **15,497** |
| Lease liabilities | 5.00 | **246** | **441** | **2,516** | **7,242** | **8,310** | **18,755** | **15,417** |
| | | **56,562** | **1,656** | **2,947** | **7,246** | **8,310** | **76,721** | **73,383** |
| As at 31 December 2018 | | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | | |
| Trade and other payables | – | 6,278 | 1,415 | 425 | – | – | 8,118 | 8,118 |
| Variable-rate bank borrowings | 4.93 | 13,786 | – | – | – | – | 13,786 | 13,786 |
| | | 20,064 | 1,415 | 425 | – | – | 21,904 | 21,904 |

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

Bank borrowings with a repayable on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2019, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$50,406,000 (2018: HK$13,786,000).

## 30. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk*** *(continued)*

*Liquidity tables (continued)*

Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

| | Less than 1 month | 1 month to 3 months | 3 months to 1 year | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| 31 December 2019 | **6,158** | **24,099** | **20,755** | **51,012** | **50,406** |
| 31 December 2018 | 6,414 | 6,136 | 1,330 | 13,880 | 13,786 |

### (c) Fair value measurements of financial instruments

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

## 31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | **Accrued issue costs (included in trade and other payables)**<br>HK$'000 | **Bank borrowings**<br>HK$'000 | **Lease liabilities**<br>HK$'000 |
|---|---|---|---|
| At 1 January 2018 | 357 | 22,693 | – |
| Financing cash flows *(note)* | (5,490) | (6,656) | – |
| Non-cash changes | | | |
| Finance costs | – | 633 | – |
| Settlement through bills receivables *(note 32)* | – | (2,942) | – |
| Exchange realignment | – | 58 | – |
| Shares issued costs accrued | 5,133 | – | – |
| At 31 December 2018 | – | 13,786 | – |
| Adjustment upon application of HKFRS 16 | – | – | 18,716 |
| As at 1 January 2019 (restated) | **–** | **13,786** | **18,716** |
| Financing cash flows *(note)* | **–** | **52,923** | **(3,466)** |
| Non-cash changes | | | |
| Finance costs | **–** | **994** | **761** |
| Settlement through bills receivables *(note 32)* | **–** | **(16,693)** | **–** |
| Exchange realignment | **–** | **(604)** | **(289)** |
| Remeasurement of lease liabilities | **–** | **–** | **(305)** |
| At 31 December 2019 | **–** | **50,406** | **15,417** |

*Note:*

The amounts for financing activities included:

(i) the cash inflows from bills discounted to the bank.

(ii) for bank borrowings, the net cash flows from new bank borrowings, repayment of bank borrowings and interests paid in the consolidated statement of cash flows.

(iii) for accrued expenses in 2018, the listing expenses which had been charged to equity.

## 32. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2019, short-term bank borrowings drawn on discounted bills with recourse of HK$16,693,000 (2018: HK$2,942,000) have been repaid through settlement on maturity of bills receivables previously discounted to the relevant banks.

## 33. RELATED PARTY DISCLOSURES

### Compensation of key management personnel

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Short-term benefits | **4,528** | 3,581 |
| Post-employment benefits | **158** | 181 |
| | **4,686** | 3,762 |

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

### Related party transaction and balance

On 26 March 2019, the Company entered into a service agreement with an independent third party (the "**Vendor**") in relation to the expansion and upgrade of certain of the Group's bonding wires production facilities at a service fee of HK$8,500,000. The related services were delivered to the Group by external consultants engaged by the Vendor and were completed during the year ended 31 December 2019. The service fee had been paid to the Vendor by the Group in full by December 2019 and the amount was initially recognised as property, plant and equipment. However, the directors of the Company confirmed that management of the Company subsequently discovered that this service fee should have been borne by CGL according to a technology implementation and license agreement dated 6 September 2017 entered into between Niche-Tech Shantou and CGL. Accordingly, the above amount was reclassified to amount due from a related company as at 31 December 2019 as set out in note 18(c). This amount was repaid to the Group in full by CGL in March 2020.

## 34. SHARE-BASED PAYMENT TRANSACTIONS

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

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

## 34. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

The exercisable period of an option, which shall not exceed 10 years from the date of grant, is determined by the Board of Directors of the Company at their discretion. Therefore, no share options lapsed or were exercised or cancelled during the year and There were no outstanding share options as at 31 December 2019.

No options have been granted by the Company since its adoption date.

## 35. PARTICULARS OF SUBSIDIARIES

| Name of subsidiary | Place and date of incorporation/ establishment | Place of operation | Issued and fully paid share capital/ registered capital | Equity interest attributable to the Group as at 31 December | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | **2019** | 2018 | |
| *Directly held* | | | | | | |
| Niche-Tech BVI | BVI<br>2 January 2014 | Hong Kong | Ordinary share<br>US$1 | **100%** | 100% | Investment holding |
| *Indirectly held* | | | | | | |
| Niche-Tech Holdings | Hong Kong<br>9 May 2012 | Hong Kong | Ordinary shares<br>HK$125,000,000 | **100%** | 100% | Investment holding |
| Niche-Tech Kaiser International Inc. | BVI<br>16 March 2012 | Hong Kong | Ordinary share<br>US$1 | **100%** | 100% | Investment holding |
| Niche-Tech Shantou<br>汕頭市駿碼凱撒有限公司 | The PRC<br>29 April 2006 | The PRC | Registered capital<br>RMB10,000,000 | **100%** | 100% | Development, manufacture and sales of semiconductor packaging materials |
| Niche-Tech (HK) | Hong Kong<br>26 April 2012 | Hong Kong | Ordinary shares<br>HK$36,000,000 | **100%** | 100% | Trading of semiconductor packaging materials |

None of the subsidiaries had issued any debt securities at the end of both years.

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investment in a subsidiary | **93,936** | 93,936 |
| Amounts due from subsidiaries | **98,586** | – |
| | **192,522** | 93,936 |
| CURRENT ASSETS | | |
| Other receivables, prepayments and deposits | **350** | 211 |
| Amounts due from subsidiaries | **5,000** | 112,493 |
| Bank balances | **13** | 37 |
| | **5,363** | 112,741 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | **1,061** | 576 |
| Amounts due to subsidiaries | **–** | 2,262 |
| | **1,061** | 2,838 |
| NET CURRENT ASSETS | **4,302** | 109,903 |
| NET ASSETS | **196,824** | 203,839 |
| CAPITAL AND RESERVES | | |
| Share capital | **7,055** | 7,055 |
| Reserves | **189,769** | 196,784 |
| | **196,824** | 203,839 |

## 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

### Movement of the Company's reserves

| | Share premium HK$'000 | Capital reserve HK$'000 *(note)* | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | 30,000 | 93,078 | 5,965 | (11,191) | 117,852 |
| Loss for the year | – | – | – | (9,483) | (9,483) |
| Exchange differences arising on translation to presentation currency | – | – | (9,700) | – | (9,700) |
| | – | – | (9,700) | (9,483) | (19,183) |
| Issue of new shares *(note 25)* | 111,435 | – | – | – | 111,435 |
| Transaction costs attributable to issue of new shares | (8,220) | – | – | – | (8,220) |
| Issue of shares by capitalisation of share premium account | (5,100) | – | – | – | (5,100) |
| At 31 December 2018 | 128,115 | 93,078 | (3,735) | (20,674) | 196,784 |
| Loss for the year | – | – | – | (4,885) | (4,885) |
| Exchange differences arising on translation to presentation currency | – | – | (2,130) | – | (2,130) |
| At 31 December 2019 | **128,115** | **93,078** | **(5,865)** | **(25,559)** | **(189,769)** |

*Note:* The amount represented the difference between the considerations paid and the net asset value of the subsidiaries of the Company upon a group reorganisation in 2017.

## 37. EVENTS AFTER REPORTING PERIOD

The outbreak of COVID-19 in the PRC and the subsequent quarantine measures imposed by the PRC government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group, as most of the Group's operations are located in Shantou in mainland China. The Group had stopped its manufacturing activities for approximately 7 days in February 2020 in an effort to contain the spread of the epidemic. The Group had resumed its manufacturing activities by phases since 10 February 2020.

# FINANCIAL SUMMARY

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

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Consolidated statement of profit or loss** | | | | | |
| Revenue | **213,006** | 184,439 | 180,522 | 156,409 | 110,125 |
| Gross profit | **41,685** | 40,813 | 37,680 | 32,854 | 22,622 |
| Profit before taxation | **1,561** | 3,044 | 4,401 | 12,252 | 4,400 |
| Income tax expense | **(2,245)** | (2,694) | (2,409) | (2,332) | (512) |
| (Loss) profit for the year | **(684)** | 350 | 1,992 | 9,920 | 3,888 |
| **Non-HKFRS measures** | | | | | |
| Net (loss) profit excluding listing expenses | **(684)** | 10,751 | 12,703 | 10,743 | 3,888 |
| **Consolidated statement of financial position** | | | | | |
| Non-current assets | **116,977** | 101,023 | 94,777 | 73,605 | 75,081 |
| Current assets | **204,667** | 174,105 | 97,308 | 208,702 | 217,044 |
| Current liabilities | **(69,859)** | (28,907) | (38,299) | (126,832) | (177,000) |
| Net current assets | **134,808** | 145,198 | 59,009 | 81,870 | 40,044 |
| Non-current liabilities | **(20,358)** | (9,093) | (10,702) | (50,316) | (11,785) |
| Net assets | **231,427** | 237,128 | 143,084 | 105,159 | 103,340 |

The summary above does not form pant of the consolidated financial statements.

The financial information for the years ended 31 December 2015 and 2016 were extracted from the Prospectus.