

# COWELL

**Cowell e Holdings Inc.**  
**高偉電子控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**Stock Code: 1415**



ANNUAL REPORT  
**2017**

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# Corporate Information

## COMPANY NAME

Cowell e Holdings Inc.

## PLACE OF LISTING OF SHARES

The Stock Exchange of Hong Kong Limited

## STOCK CODE

1415

## STOCK NAME

Cowell

## BOARD OF DIRECTORS

### Executive Directors

Mr. Seong Seokhoon (*Chairman*)  
Mr. Lee Dong Goo  
(*appointed with effect on May 18, 2017*)  
Mr. Kim Kab Cheol  
(*resigned on September 30, 2017*)

### Independent Non-executive Directors

Mr. Kim Chan Su  
Dr. Song Si Young  
Mr. Andrew Look  
(*appointed on March 23, 2017 with effect from April 3, 2017*)  
Mr. Kim Ilung  
(*resigned on March 23, 2017*)

## COMPANY SECRETARY

Ms. Lam Wing Yan

## AUTHORIZED REPRESENTATIVES

Mr. Seong Seokhoon  
Ms. Lam Wing Yan

## AUDIT COMMITTEE

Mr. Kim Chan Su (*Chairman*)  
Dr. Song Si Young  
Mr. Andrew Look (*appointed on March 23, 2017 with effect from April 3, 2017*)  
Mr. Kim Ilung (*resigned on March 23, 2017*)

## REMUNERATION COMMITTEE

Dr. Song Si Young (*Chairman*)  
Mr. Kim Chan Su  
Mr. Seong Seokhoon

## NOMINATION COMMITTEE

Mr. Seong Seokhoon  
Dr. Song Si Young  
Mr. Kim Chan Su

## REGISTERED OFFICE

PO Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1 Songbai Road  
Huanan Industrial Zone  
Liaobu Town  
Dongguan City  
Guangdong Province  
PRC

## Corporate Information

**PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Suite 3208–9  
32/F, Tower 6  
The Gateway  
9 Canton Road  
Tsimshatsui  
Kowloon  
Hong Kong

**AUDITOR**

KPMG  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

**LEGAL ADVISOR**

Michael Li & Co  
19/F, Prosperity Tower  
No. 39 Queen's Road Central  
Central  
Hong Kong

**CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT**

Maples Fund Services (Cayman) Limited  
PO Box 1093  
Boundary Hall  
Cricket Square  
Grand Cayman  
KY1–1102  
Cayman Islands

**HONG KONG SHARE REGISTRAR**

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716  
17/F, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

**PRINCIPAL BANKERS**

Hongkong and Shanghai Banking Corporation Limited

Australia and New Zealand Banking Group Limited

**COMPANY WEBSITE**

[www.cowelleholdings.com](http://www.cowelleholdings.com)

**PUBLIC RELATIONS CONSULTANT**

Strategic Public Relations Group Limited  
24/F., Admiralty Centre I,  
18 Harcourt Road, Hong Kong



## Chairman's Statement

Dear Shareholders,

I would like to present our key milestones and achievements for the financial year ended December 31, 2017 on behalf of Cowell e Holdings Inc. ("Cowell" or the "Company").

Our strategic objective is to take the lead in the camera module industry. To achieve this objective, we have continued to develop design technology, product development expertise, manufacturing processes and customer services which eventually strengthened business relationships with our major customers.

However, the fiscal year of 2017 was a very challenging year to Cowell. The growth of the global smartphone industry was very slow and the competition in the smartphone market, especially in China, were very fierce. A number of Chinese smartphone makers were quickly gaining market share through the technology enhancement and aggressive overseas marketing activities as well as their low pricing strategy, which substantially impacted our camera module business. For the year ended December 31, 2017, our revenue decreased to US\$740.7 million, 19.0% less than that of 2016, and we recorded a net profit of US\$27.6million, a 3.1% decrease as compared to the prior year.

In order to cope with changing market landscape, we have focused on developing innovative processing, improving production yield and satisfying customers' requirements. Our efforts in this regard will continue. Furthermore, by mobilizing all our available resources, we will strive to diversify both client and product portfolios in the near future. We are currently expanding our research and development activities to reshape our product roadmap and business direction and to pave the way for our future growth.

The management of Cowell strongly believes that human resources are Cowell's core assets. Therefore, we are making every effort to encourage and nurture the young and talented employees to cultivate their career within the Company for our mutual growth. In the meantime, we will continue to recruit professionals with expertise in camera module solutions and value-added applications to enlighten Cowell's future product strategy. In this regard, the management team will maintain its commitment and execute our strategies for Cowell's continued growth.

Lastly but not the least I am grateful to all our staff and management team for their hard work throughout the year. On behalf of Cowell, I would like to thank all our shareholders for their interest in Cowell and continued support in the future. And as always, my sincere appreciation goes to our Board members for their contribution and invaluable guidance during the year.

**Mr. Seong Seokhoon**

*Chairman*

# Management Discussion and Analysis

## MARKET REVIEW

The growth of the smartphone industry is getting slower and the competition in the market is becoming very fierce. Chinese smartphone brands were able to get more market share from the existing major players including Apple, Samsung Electronics and LG Electronics based on their technical innovation and aggressive overseas marketing efforts, not just based on their usual low pricing strategy. This trend has changed the global smartphone competition landscape. Three major Chinese smartphone brands have already been recognized as a part of the world top 5 smartphone makers.

In addition to the change in the competition landscape, the smartphone market is requiring more sophisticated technological innovation, functions and applications to meet consumers' demand. Dual camera modules are now deemed to be a market standard for the premium phones and 3D camera modules have been often the core agenda of many industry discussions.

Apart from the smartphone industry, electronic automobile device makers also require more camera solutions in their systems to enhance self-driving capability and assist people to drive safely. Therefore, there is no doubt that the demand for camera functions will be increasing since more product innovation both in the smartphone industry and the automobile device industry will include various solutions with camera modules.

The aforementioned market trend has already had a large impact on Cowell's camera module business since the Group has not started supplying camera modules to Chinese smartphone makers yet. The management team of the Group is well aware of this trend and has been devoting enormous time and effort to tackle this challenge.

## BUSINESS REVIEW

The Group is a major supplier of camera modules for mobile devices. It primarily engages in the design, development, manufacture and sale of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Customers for the Group's camera modules include some of the leading mobile device manufacturers in the world such as Apple, LG Electronics and Samsung Electronics. The Group also designs, develops, manufactures and sells optical components used in a number of consumer electronics products. Major customers for the Group's optical components include subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi.

The Group believes that its state-of-the-art manufacturing facilities, engineering capabilities, technical expertise and accumulated know-how in manufacturing camera modules and optical components, as well as strong relationships with its customers will continue to differentiate it as a provider of high quality and cost effective camera modules and optical components, and position well for continued growth opportunities. The Group operates two production facilities at Hengkeng and Huanan in Dongguan, PRC, where it can take advantage of high-quality labor force and extensive infrastructure for its operations. Furthermore, this location is strategically important from the perspective of transportation of products to its customers.

## Management Discussion and Analysis

For the year ended December 31, 2017, the Group sold approximately 143.9 million units of camera modules and approximately 79.0 million units of optical components, compared to approximately 167.9 million units of camera modules and approximately 125.0 million units of optical components in 2016. Revenue decreased from US\$914.5 million in 2016 to US\$740.7 million in 2017 and a profit for the year of US\$28.5 million in 2016 and US\$27.6 million in 2017 were recorded. The Group had total assets of US\$504.1 million and total equity of US\$333.5 million as of December 31, 2017 as compared to total assets of US\$562.3 million and total equity of US\$297.4 million as of December 31, 2016.

In order to facilitate efficient capital management and demonstrate the management's willingness to share the Group's profit with the shareholders, the Board has proposed the payment of a final dividend of HK5.1553 cents (2016: HK\$7.9770 cents) per ordinary share for the year ended December 31, 2017, subject to the approval of shareholders of the Company at the forthcoming annual general meeting. Together with the interim dividend of HK1.7179 cents per share, the dividend for the full year will be HK6.8732 cents per ordinary share after the end of the reporting period.

### **OUTLOOK AND FUTURE STRATEGIES**

Although the smartphone industry's growth has been slower mainly due to consumers' lengthened replacement cycle, the camera module business for the smartphone is, in general, becoming more lucrative. It has been driven by smartphone makers' equipping more camera modules into their premium phones in the form of dual front-and rear-end camera modules, 3D sensing camera modules and so on. This trend is clearly reflecting consumers' growing demand for more technological sophistication on their devices. However, the business environment in the fiscal year of 2017 was not favorable to the Group's business due to the following reasons:

1. Chinese smartphone makers, whom the Group is currently not serving, have gained more market share lately;
2. Shipments of camera modules to the major US customer were delayed due to lagging orders;
3. The sales of new products were lower than the Group's expectation; and
4. Competition has been intensified due to new suppliers entering into the supply chain.

In order to cope with the market situation described above, the Group has continued to focus on upgrading technology and product development expertise, manufacturing processes and customer services. The senior management of the Group believed that the Group's effort in this direction would eventually strengthen the relationships with its major customers and grow its business with them. The Group plans to maximize benefits from key mobile device products introduced by its largest customers and aims to expand its share of their demand. The Group is also seeking to further penetrate the camera modules market by widening its product portfolio from primarily fixed-focus camera modules to a variety of high-end camera modules. In addition, it aims to produce higher resolution camera modules, which it believes will drive higher profit margins.

Furthermore, the Group has made progress in expanding research and development division to develop new camera modules and relevant solutions. This initiative is to expand its customer base for further growth in the future. The Group also intends to develop and manufacture components which may be used in camera modules for synergistic value. In addition, the Group will continue to upgrade its camera module related technologies and manufacturing capabilities and other relevant solutions to meet customer requirements and improve operational efficiency, which, in turn, can increase productivity, improve production yields and reduce costs.

## Management Discussion and Analysis

Since December 31, 2016, the Group did not experience any significant change of pricing policy for its products and there was no material change in the unit cost of raw materials. In the fiscal year of 2017, the Group did not confront any critical production yield issue which it experienced in 2016. As a result, overall profitability has improved in 2017.

The directors are aware that its customers and product portfolio are highly concentrated. In order to alleviate the concentration risk, the Group has decided to expand its research and development division, which may develop new products independently from the existing customers. This initiative has been already kicked off and in progress. Furthermore, the management of the Group has not ruled out the potential plan of entering into strategic partnership with other companies, which have different technologies or solutions, to create synergy for mutual growth.

### FINANCIAL REVIEW

The following table shows the summary of business results for the year ended December 31, 2017:

	For the year ended December 31,		Changes %
	2017	2016	
	(US\$ in millions)	(US\$ in millions)	
<b>OPERATING RESULTS</b>			
<b>Revenue</b>	<b>740.7</b>	914.5	(19.0%)
Camera modules	<b>735.6</b>	907.8	(19.0%)
Optical components	<b>5.1</b>	6.7	(23.9%)
<b>Gross profit</b>	<b>74.2</b>	76.1	(2.5%)
Gross margin	<b>10.0%</b>	8.3%	
<b>Operating profit</b>	<b>31.1</b>	35.4	(12.1%)
Operating margin	<b>4.2%</b>	3.9%	
<b>Net profit</b>	<b>27.6</b>	28.5	(3.2%)
Net margin	<b>3.7%</b>	3.1%	
<b>ASSETS &amp; LIABILITIES</b>			
<b>Total assets</b>	<b>504.1</b>	562.3	(10.4%)
Current assets	<b>367.3</b>	426.5	(13.9%)
Non-current assets	<b>136.8</b>	135.8	0.7%
<b>Total liabilities</b>	<b>170.6</b>	264.9	(35.6%)
Current liabilities	<b>170.4</b>	264.5	(35.6%)
Non-current liabilities	<b>0.2</b>	0.4	(50%)
<b>Total equity</b>	<b>333.5</b>	297.4	12.1%
<b>EARNINGS PER SHARE</b>			
	<b>\$0.033</b>	\$0.034	(2.9%)



## Management Discussion and Analysis

### Revenue

The Group reported a total revenue of US\$740.7 million in 2017, a 19.0% decrease as compared to that of 2016.

*Camera Modules:* Camera module revenue for the fiscal year of 2017 was US\$735.6 million, a 19.0% decrease from US\$907.8 million in 2016 mainly due to slowing growth of the global smartphone industry.

*Optical Components:* Optical component revenue for the fiscal year of 2017 was US\$5.1 million, a 23.9% decrease from US\$6.7 million in 2016 primarily due to the decreased demand in line with slow smartphone industry and DVD market.

### Profit and Margin

For the year ended December 31, 2017, the Group has reported gross profit, operating profit and net profit of US\$74.2 million, US\$31.1 million and US\$27.6 million, respectively, as compared to US\$76.1 million, US\$35.4 million and US\$28.5 million, respectively, in the fiscal year of 2016. In terms of margins, the Group's gross margin, operating margin and net margin for the year ended December 31, 2017 were 10.0%, 4.2% and 3.7%, respectively, as compared to 8.3%, 3.9% and 3.1%, respectively, in 2016. The profitability of the Group has been improved mainly due to decreased direct labor and higher production yield.

During the year ended December 31, 2017, the Group did not experience any significant change of pricing policy for its products and there was no material change in the unit cost of raw materials.

### Key Financial Ratios

	For the year ended December 31,	
	Consolidated	
	2017	2016
	(US\$ in millions)	
<b>KEY FINANCIAL RATIO (%)</b>		
Return on equity	8.3%	9.6%
Current ratio (times)	2.15	1.61
Quick ratio (times)	1.52	1.39
Gearing ratio	(27.4%)	(15.1%)
Debt to equity ratio	(21.5%)	(13.1%)

#### Return on Equity

The calculation of return on equity is based on profit for the period divided by capital and reserves and multiplied by 100%.

The Group's return on equity at the end of the fiscal year of 2017 decreased from 9.6% in 2016 to 8.3% in 2017, primarily due to an increase in total equity for the year ended December 31, 2017.

## Management Discussion and Analysis

### *Current Ratio*

The calculation of current ratio is based on current assets divided by current liabilities.

The Group's current ratio increased from 1.61 in 2016 to 2.15 in 2017, primarily due to increase in inventory and decrease in the Group's trade and other payables, which were partially offset by corresponding decrease in the Group's trade and other receivables.

### *Quick Ratio*

The calculation of the quick ratio is based on current assets less inventories divided by current liabilities.

The Group's quick ratio increased from 1.39 in 2016 to 1.52 in 2017, mainly due to decrease in the Group's bank loans and trade and other payables, which were partially offset by a corresponding decrease in the Group's trade and other receivables.

### *Gearing Ratio*

The calculation of gearing ratio is based on net debt (defined as bank loans less cash and cash equivalents and pledged deposits) divided by the sum of net debt and total equity, and multiplied by 100%.

The Group's gearing ratio decreased from -15.1% in 2016 to -27.4% in 2017, primarily due to a decrease in its bank loans.

### *Debt to Equity Ratio*

The calculation of debt to equity ratio is based on net debt divided by total equity and multiplied by 100%.

Consistent with its gearing ratio, the Group's debt to equity ratio decreased from -13.1% in 2016 to -21.5% in 2017, primarily due to a decrease in its bank loans.

## **Selling and Distribution Expenses**

The selling and distribution expenses decreased by 3.1% from US\$3.2 million in 2016 to US\$3.1 million in 2017. There was no material adverse development in the selling and distribution expenses in the fiscal year of 2017.

## **Administrative Expenses**

Administrative expenses decreased by 11.7% from US\$44.5 million in 2016 to US\$39.3 million in 2017. This decrease was primarily attributable to a US\$4.0 million decrease in salaries, allowance, social insurance and welfare. The research and development expense in the fiscal year of 2017 amounted to US\$16.7 million, which was equal to that in 2016.

## **Finance Costs**

Finance costs decreased by 12.5% from US\$0.8 million in 2016 to US\$0.7 million in 2017, which was mainly attributable to the improved terms and condition of the trade receivable financing facility with the bank.

## Management Discussion and Analysis

### Income Tax

The Group's income tax expense decreased by 51.8% from US\$5.6 million in 2016 to US\$2.7 million in 2017 mainly due to '2016 super deduction' booked in 2017. Super deduction is a tax scheme which allows companies to deduct 150% of research and development expenses from the taxable income. This tax scheme incentivizes high technology companies to spend more research and development expenses for high technology. As a result, the Group's effective tax rate was lowered by 7.3% from 16.3% in 2016 to 9.0% in 2017.

### Final Dividends

For the year ended December 31, 2017, the final dividends proposed by the Board was HK5.1553 cents (equivalent to US 0.6643 cents) per share, with a payout ratio of 30.0% of the profit attributable to the Shareholders.

## CURRENT ASSETS AND LIABILITIES

As of December 31, 2017, the Group had net current assets of US\$196.9 million, compared to net current assets of US\$162.0 million as of December 31, 2016, representing an increase of US\$34.9 million. This change was primarily due to an increase in the Group's inventory of US\$47.3 million. In addition, a decrease in the Group's trade and other payables of US\$50.7 million and a decrease in the Group's bank loans of US\$42.1 million, which were offset by a decrease in trade and other receivables of US\$91.3 million.

### Inventories

The Group's inventory balance increased by 79.0%, or US\$47.3 million, from US\$60.0 million as of December 31, 2016 to US\$107.3 million as of December 31, 2017, due mainly to delayed product shipments led by lagging orders from the major US customer.

The following table sets forth the Group's average inventory turnover days for the periods indicated:

	As of December 31,	
	2017	2016
Inventory turnover days <sup>(1)</sup>	45.8	35.1

(1) Inventory turnover days were calculated based on the average of the opening and closing inventory balances divided by the cost of sales for the relevant period and multiplied by the number of days in the period.

## Management Discussion and Analysis

**Trade and Other Receivables**

Trade receivables represent outstanding amounts due from the Group's customers for the purchase of its products. Besides trade receivables, the Group's other receivables and prepayments primarily comprise prepayments on the purchase of components and materials, value-added tax refunds due and guarantee deposits for its leases.

The Group's trade and other receivables decreased by 39.5%, or US\$91.3 million, from US\$231.2 million as of December 31, 2016 to US\$139.9 million as of December 31, 2017.

The table below sets forth an aging analysis of the Group's trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, as of the dates indicated:

	<b>As of December 31,</b>	
	<b>2017</b>	2016
	(US\$ in millions)	
<b>Trade receivables</b>		
Within 1 month	78.6	133.8
Over 1 to 2 months	38.6	67.4
Over 2 to 3 months	0.2	0.4
Over 3 months	0.9	0.5
<b>Total</b>	<b>118.3</b>	<b>202.1</b>

The following table sets forth the turnover days for the Group's trade receivables for the periods indicated:

	<b>Year ended December 31,</b>	
	<b>2017</b>	2016
Trade receivables turnover days <sup>(1)</sup>	78.9	57.5

(1) Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by turnover for the relevant period multiplied by the number of days in the period.

The Group's average trade receivables turnover days for the year ended December 31, 2017 were higher as compared to the year ended December 31, 2016 due primarily to the decrease in the sales as of December 31, 2017.

## Management Discussion and Analysis

### Trade and Other Payables

Trade payables represent outstanding amounts due on the Group's purchases of components and materials and equipment from external suppliers. Besides trade payables, the Group's accrued charges and other payables primarily comprise accrued salaries and other remuneration benefits and interest expenses payable.

The Group's trade and other payables decreased by 30.1%, or US\$50.7 million, from US\$168.7 million as of December 31, 2016 to US\$118.0 million as of December 31, 2017, primarily due to a decrease in the purchased components and materials resulting mainly from the decrease of production in the fourth quarter of 2017.

The following table sets forth an aging analysis of the Group's trade payables (which include in trade and other payables) as of the dates indicated:

	As of December 31,	
	2017	2016
	(US\$ in millions)	
<b>Trade payables</b>		
Within 1 month	57.4	88.0
Over 1 to 3 months	49.8	68.8
Over 3 to 6 months	0.1	0.6
<b>Total</b>	<b>107.3</b>	<b>157.4</b>

The following table sets out the turnover days for the Group's trade payables for the periods indicated:

	Year ended December 31,	
	2017	2016
Trade payables turnover days <sup>(1)</sup>	65.2	51.1

(1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by turnover for the relevant period multiplied by the number of days in the period.

The Group's average trade payables turnover days for the year ended December 31, 2017 were higher as compared to the year ended December 31, 2016 due primarily to the decrease in the sales as of December 31, 2017.



## Management Discussion and Analysis

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has a solid financial position and continued to maintain a strong and steady inflow from operating activities. As at December 31, 2017, the Group had US\$93.9 million of cash and cash equivalents. The Directors believes that the current cash and cash equivalents, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements of the Group.

#### Borrowings

As of the close of business on December 31, 2017, the Group had aggregate banking facilities of approximately US\$70.0 million, of which US\$47.1 million were utilized. Other than this, the Group did not have any other outstanding debt securities, charges, mortgages or other similar indebtedness, hire purchase and finance lease commitments, or guarantees or other material contingent liabilities.

#### Pledge of The Group's Assets

As at December 31, 2017, the Group's pledged deposits included US\$3.4 million (December 31, 2016: US\$3.2 million) provided to the local customs authority in the PRC. Details of such pledge is disclosed in note 16 to the consolidated financial statements.

#### Capital Expenditures and Commitments

The Group's capital expenditures (equivalent to the cash spent for payment for purchases of property, plant and equipment and intangible assets) for the year ended December 31, 2017 amounted to US\$18.9 million which was funded through cash flow from operation, compared to US\$43.4 million for the year ended December 31, 2016. The Group's capital expenditures in 2017 mainly reflected machine and equipment conversion costs for more advanced camera modules. The Group intends to fund the planned future capital expenditures through a combination of cash flow from operating activities and available banking facilities.

The Group's capital commitments that were contracted but not provided as of December 31, 2017 amounted to US\$0.9 million, compared to US\$0.8 million as of December 31, 2016. Such capital commitments represent commitments arising out of a contractual relationship where the relevant property, plant and equipment were not provided as of the relevant dates.

## Management Discussion and Analysis

The Group is the lessee in respect of a number of properties held under operating leases. These leases are non-cancellable for the remaining period from 1 to 18 years, with an option to renew the lease upon expiration. None of the leases include contingent rentals. The table below sets forth the Group's operating lease commitments under these non-cancellable operating leases for factory, office, equipment and vehicles, by lease term, as of the dates indicated:

	As of December 31,	
	2017	2016
	(US\$ in millions)	
Within one year	2.6	2.0
Between one and five years	8.6	6.2
Over five years	14.7	13.8
<b>Total</b>	<b>25.9</b>	<b>22.0</b>

### Contingent Liabilities

As at December 31, 2017 the Group had no significant contingent liabilities except for the guarantees issued by the Company to secure the banking facilities with banks as disclosed in note 25 to the consolidated financial statements.

### Interest Coverage Ratio

The interest coverage ratio slightly decreased from 43.9 in 2016 to 42.7 in 2017, primarily due to a decrease in the profit before interest and income taxes, as well as a decrease in average finance costs resulting from a decrease in the Group's average bank loans.

### Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of its assets, liabilities and other commitments can meet funding requirements from time to time.

## Management Discussion and Analysis

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ON MARKET RISK

The Group's exposure to credit, liquidity, interest rate and currency risks arises in the normal course of its business. The market risks to which the Group is exposed to, as well as its practices to manage such risks, are as follows:

#### Credit Risk

The Group's credit risk is primarily attributable to its trade and other receivables, financial assets and deposits with banks. In respect of trade and other receivables, the Group performs individual credit evaluations on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer and the economic environment in which the customer operates. Trade and other receivables are generally due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from its customers. In respect of deposits with banks, the Group only places its deposits with the major financial institutions which the management believes such institutions have a high credit rating.

The Group's exposure to credit risk is influenced primarily by the individual characteristics of each customer, and to a lesser extent, by the default risk of the industry and country in which its customers operate. As of December 31, 2017, 87.8% (2016: 86.1%) of the Group's trade receivables were due from its largest customer, and 99.9% (2016: 100%) of its trade receivables were due from its five largest customers in the aggregate.

#### Liquidity Risk

The Group's policy is to regularly monitor liquidity risk so as to ensure that it maintains sufficient reserves of cash and adequate bank facilities to meet its liquidity requirements in the short and longer term. The Group's bank loans amounting to US\$47.1 million (2016: US\$89.2 million) as of December 31, 2017 were due, or expected to be due, prior to the second quarter of 2018, and are not clean/conventional bank loans, but a trade receivable financing based on the invoices from the main US customer. The short-term liquidity risk inherent in this contractual loan maturity schedule was reviewed at the time of the loans were drawn and was accounted for in the Group's cash flow forecasts.

Please refer to note 23(b) to the financial statements for further information.

#### Interest Rate Risk

The Group's interest rate risk arises primarily from its interest-bearing borrowings subject to variable rates, which expose it to cash flow interest rate risk, and those subject to fixed rates, which expose the Group to fair value interest rate risks. As of December 31, 2017, the Group's variable rate borrowings amounted to US\$47.1 million (2016: US\$89.2 million).

As of December 31, 2017, it is estimated that if interest rates increased generally by 100 basis points, with all the other variables held constant, the Group's profit after tax and retained profits would have decreased by approximately US\$0.4 million (2016: US\$0.7 million). Other components of the Group's equity would not have been affected by a general increase in interest rates.

## Management Discussion and Analysis

### Currency Risk

The Group's exposure to currency risk arises primarily through sales and purchases giving rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars (pegged to the U.S. dollar), Renminbi and Korean Won.

The functional currency of the Company and the Group's subsidiaries operating in Hong Kong, the PRC and Korea are U.S. dollars, Hong Kong dollars, Renminbi and Korean Won, respectively. While both the Group's sales of products and purchases of components, materials and equipment are denominated mainly in U.S. dollars, a portion of its purchases, as well as its labor and other operating costs, are denominated in other currencies, including Renminbi and Korean Won. For the year ended December 31, 2017, the Group did not use any forward exchange contracts or other derivative instruments to hedge against fluctuations in currency exchange rates applicable to us.

As of December 31, 2017, it is estimated that if the exchange rate of the Korean Won against the U.S. dollar had appreciated by 5%, with all the other variables held constant, the Group's profit after tax and retained profits would have increased by approximately US\$0.8 million (2016: US\$0.7 million).

Please refer to note 23(d) to the consolidated financial statements for further details.

### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions and disposals of subsidiaries and associated companies of the Company performed by the Group for the year ended December 31, 2017.

### HUMAN RESOURCES

The Group employed a total of approximately 4,267 full-time employees as of December 31, 2017 (December 31, 2016: 5,298). Total staff costs for the year ended December 31, 2017, excluding Directors' remuneration were approximately US\$54.5 million (2016: US\$60.7 million).

In particular, professional employment agencies located in Dongguan, the PRC, have been involved in hiring most of the Group's factory workers. The Group also provides living, entertainment, dining and training facilities for its employees. The scope of the training includes human resources policy, health and safety, management skills and machine and equipment manuals as well as other various topics.

The Group has an emolument policy with respect to its long-term incentive schemes. The basis of determining emoluments payable to the directors is made on a discretionary basis with reference to the Company's operating results, individual performance and comparable market statistics. Furthermore, the Board has delegated the remuneration committee to review and make decisions in respect of the remuneration packages and overall benefits for the directors and senior management of the Company. The emolument policy of the Group is determined by the Board on the basis of their merit, qualifications and competence.

## Directors and Senior Management

As of the date of this annual report, the Board consists of five Directors including two executive Directors and three independent non-executive Directors. The following sets forth the profile of the Directors and senior management:

### Executive Directors

**Mr. Seong Seokhoon**, aged 54, is an executive Director and the chief financial officer of the Company. Mr. Seong is responsible for supervising the financial operation of the Group. Prior to joining the Group in May 2003 as the chief executive officer of Cowell Korea, Mr. Seong worked at the planning department at LG Chem as an assistant manager between January 1989 and December 1994 and the financial affairs and planning department at Woobang Construction Co., Ltd., a Korean company engaged in the construction business, as a senior manager between January 1995 and February 2001. In the periods between November 2001 and May 2003 and between October 2008 and May 2012, Mr. Seong served as the chief executive officer of DSD Marketing, a marketing agency based in Korea, and from August 2007 to September 2008, he served as a director of Cowell Korea. From May 2003 to September 2008, Mr. Seong served as the chief executive officer of Cowell Korea. He was appointed as the chief financial officer of Cowell China in May 2012 and in December 2012, he was appointed as a director of Cowell Hong Kong. Mr. Seong was appointed as a Director on December 17, 2012. He was re-designated as an executive Director on April 14, 2014 and was appointed the chief financial officer of the Company in October 2014. Mr. Seong has been redesignated as the Company's chairman of the board with effect on March 1, 2016. Mr. Seong received a bachelor's degree in accounting from Kyungpook National University in Korea in February 1989. Mr. Seong became the sole chief executive officer of the Company on September 30, 2017.

**Mr. Lee Dong Goo**, aged 44, has been the executive director of Cowell China since September in 2016. Mr. Lee is responsible for overall camera R&D and engineering division of Cowell China. Prior to joining Cowell China in September 2011 as a camera technology and test process manager, Mr. Lee had worked at Samsung Techwin Co., Ltd. and Samsung Electronics Co., Ltd. as a camera system senior engineer from May 2001 to August 2011 and engaged in the satellite image development and sensor modeling of aerospace and photogrammetry, as a research associate at ETRI (Electronics and Telecommunications Research Institute), a national research center based in Korea from March 1999 to April 2001. In December 2012, Mr. Lee was promoted to a director of Cowell China as a R&D head and remained in that position until August 2016. Mr. Lee has around 19 years of experiences in high camera technologies, camcorder development and very valuable insight and technical experiences through lots of global customers. Mr. Lee was appointed as an executive Director of the Company on May 18, 2017.

Mr. Lee received a master's degree of digital photogrammetry in civil engineering from Inha University in Korea in February 2001.



## Directors and Senior Management

### Independent non-executive Directors

**Mr. Kim Chan Su**, aged 50, is an independent non-executive Director. Mr. Kim is responsible for supervising and providing independent judgment to the Board. Mr. Kim has over 20 years' experience in professional accounting and consulting services. Since November 2004, Mr. Kim has been the chief executive officer and representative partner of IL SHIN Corporate Consulting Limited and IL Shin CPA Limited, private companies based in Hong Kong which provide professional tax and accounting advisory services to clients in Hong Kong, China and overseas. From August 2002 to October 2004, Mr. Kim worked at PricewaterhouseCoopers Hong Kong as a representative of the Korean desk in charge of Korean companies' investment in Hong Kong and China. From October 1993 to July 2002, Mr. Kim served as a senior manager at Samil Accounting Corporation in Seoul. From September 2004 to January 2013, Mr. Kim also acted as an independent non-executive director of Forebase International Holdings Limited (formerly known as Kwang Sung Electronics H.K. Co. Limited), which is listed on the Hong Kong Stock Exchange (stock code: 2310). Mr. Kim obtained a bachelor's degree in economics from Yonsei University in Korea in February 1992. Mr. Kim is a certified public accountant in Korea, Hong Kong and the States of Washington of the United States. He is also a member of AICPA and the HKICPA respectively. Mr. Kim was appointed as an independent non-executive Director of the Company on March 10, 2015.

**Mr. Andrew Look**, aged 53, was appointed as an independent non-executive Director with effect on April 3, 2017. Mr. Look is responsible for supervising and providing independent judgment to the Board. Mr. Look is the founder of Look's Asset Management Limited, a Hong Kong based asset management company licensed by Hong Kong Securities and Futures Commission ("SFC"). Mr. Look was the Head of Hong Kong Research, strategy and product of UBS AG until August 2008. He joined UBS AG in June 2000 after spending 15 years in the banking, property development and fund management industries. Prior to joining UBS AG, Mr. Look was the regional director of PPM Worldwide, the fund management arm of the Prudential Corporation of the United Kingdom, where he managed pension and life insurance funds investing in Asia ex-Japan markets. Mr. Look was rated best Hong Kong strategist and best analyst by Asiamoney in 2001, 2002, 2003, 2005, 2006 and 2007. UBS Hong Kong Research Team was rated best Hong Kong Research by Institutional Investors in 2002, 2003, 2004 and 2005. He is also an independent non-executive director of Ka Shui International Holdings Limited (Stock Code: 822), Hung Fook Tong Group Holdings Limited (Stock Code: 1446), Citic Resources Holdings Limited (Stock Code: 1205) and Union Medical Healthcare Limited (Stock Code: 2138), and he appointed as the Chief Investment Officer of Tou Rong Chang Fu Group Limited Group's asset management business and as the Representative Officer of China Hong Kong Link Asset Management Limited (Stock Code: 850) all listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Look holds a bachelor of commerce degree from the University of Toronto. Mr. Look was appointed as an independent non-executive Director of the Company on March 23, 2017 with effect from April 3, 2017.

**Dr. Song Si Young**, aged 60, is an independent non-executive Director. Dr. Song is responsible for supervising and providing independent judgment to the Board. Dr. Song has over 20 years' experience in medicine and the healthcare industry. Since March 1993, Dr. Song has been a faculty member of Yonsei University College of Medicine in Korea and he currently serves as a professor in the Department of Internal Medicine. Dr. Song served as an exchange assistant professor at Vanderbilt University College of Medicine in the United States from September 1996 to November 1998. He has also served as the director of the Division of Medical Science Research Affairs and the president of the Industry-Academy Cooperation Foundation of Yonsei University Health System since September 2010 where he was in charge of the management and administration of Yonsei University Health System's research, development and participation in the healthcare industry. Dr. Song has also served as a director of Yonsei Technology Holdings, Inc., a company engaged in the commercialization of Yonsei University's technologies through forming subsidiaries since June 2011, where he is responsible for the operational management of technological holding companies affiliated with the Industry-Academy Cooperation Foundation of Yonsei University. Dr. Song was appointed as an independent non-executive Director of the Company on March 10, 2015.

## Directors and Senior Management

Dr. Song has provided professional advice to the following companies in connection with the healthcare and medical device manufacturing industries:

<b>Company</b>	<b>Nature of Company</b>	<b>Principal Business</b>	<b>Duration of Tenure</b>
LG Chem Ltd.	listed on the Korea Exchange (stock code: 051910)	manufacture of chemicals	February 2001 to January 2003
LG Life Science Co., Ltd.	listed on the Korea Exchange (stock code: 068870)	research and development of pharmaceuticals	August 2003 to March 2006
IntroMedic Co., Ltd.,	listed on the Korea Exchange (stock code: 150840)	development and manufacture of optical medical device and equipment	January 2007 to present
Hanwha Chemical Corporation	listed on the Korea Exchange (stock code: 009830)	production and sale of organic and inorganic chemicals	June 2006 to May 2007
CJ Co., Ltd.	a private company based in Korea	development of research, business and marketing strategies of healthcare industry	March 2004 to February 2005
M.I. Tech Co., Ltd.	a private company based in Korea	manufacture of non-vascular stents and medical electronic devices	May 2009 to November 2012
various subsidiaries of LG Corp.	listed on the Korea Exchange (stock code: 003550)	healthcare business	January 2011 to June 2011
HooH Healthcare	a private joint venture company between Korean Telecommunication and Yonsei University Health System	healthcare IT service and business strategic development	August 2012 to present
CrystalGenomics, Inc.	listed on the Korea Exchange (stock code: 083790)	structural chemoproteomics- based drug discovery and development	August 2013 to present

Dr. Song obtained a bachelor's degree in medicine in February 1983 from Yonsei University College of Medicine in Korea. In March 1987 and March 1989, Dr. Song obtained a master's degree and a doctorate degree respectively in medical sciences, both from the Graduate School of Yonsei University.

## Directors and Senior Management

Save as disclosed above, the Directors (i) have not held any directorships in other listed public companies, whether in Hong Kong or overseas, during the last three years; and (ii) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company. Regarding the Directors' interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance, please refer to the paragraph headed "Directors' and Chief Executive Officers' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its associates corporations" in the Directors' Report section of this report for more details.

### SENIOR MANAGEMENT

The senior management team of the Group, in addition to the executive Directors listed above, is as follows:

**Mr. Kang Byeong Sun**, aged 54, joined Cowell China in November 2012 to lead the procurement team. In February 2017, Mr. Kang was appointed as Head of Management Support Division of Cowell China being responsible for procurement, information technology, security, health & safety, and building management. Prior to joining Cowell China, Mr. Kang had developed his professional career at global companies such as LG Electronics, Inc. ("LG") and a subsidiary of Motorola Solutions, Inc. ("Motorola") in Korea. Mr. Kang had worked for LG for over 12 years and during the last 6 years in LG, he had worked as a purchasing manager. Mr. Kang had moved to Motorola in September 1999 and worked as General Manager of Original Design Manufacturing team till September 2012.

Mr. Kang received a bachelor's degree in electrical engineering from Yonsei University in Korea in February 1987.

**Mr. Cho Young Hoon**, aged 42, joined Cowell China in July 2013 as a manager of strategic planning division being responsible for supervising daily financial and sales operations of Cowell China. Mr. Cho has promoted to a director of Cowell China in September 2016. Prior to joining Cowell China in July 2013, Mr. Cho had worked at LG Electronics, Inc. as an assistant manager from July 2002 to July 2013 based in Korea engaged in the manufacture and sale of consumer electronics such as mobile phone, TV, Air conditioner.

Mr. Cho received a bachelor's degree in economics from Yonsei University in Korea in February 2002.

## Directors and Senior Management

**Mr. Cho Kyu Beom**, aged 54, has been the chief executive officer of Cowell Korea since April 2012. Mr. Cho is responsible for supervising the daily operations of Cowell Korea. Prior to joining the Group in July 2002 as a department manager at Cowell China, Mr. Cho worked at LG Chem as an assistant manager from July 1989 to April 1996 and at LG Siltron Incorporated, a private company based in Korea engaged in the manufacture and sale of semiconductor materials such as wafer, as a senior manager from May 1996 to July 2002. In December 2008, Mr. Cho was promoted to be a chief executive officer of Cowell China and remained in that position until April 2011. Mr. Cho has been a director of Cowell Korea since March 2009. Between May 2011 and March 2012, he served as an executive vice president of Cowell Korea and since April 2012, he has been the chief executive officer of Cowell Korea. Mr. Cho received a bachelor's degree in mechanical engineering from Hanyang University in Korea in February 1987.

### COMPANY SECRETARY

**Ms. Lam Wing Yan**, aged 41, is the senior finance manager of Cowell Hong Kong and was appointed as the company secretary of our Company on September 17, 2014. Ms. Lam joined our Group in August 2013 and has been primarily responsible for corporate financial management. She has over 14 years of experience in corporate financial management, accounting and the company secretarial area. Prior to joining our Group, Ms. Lam held various positions, including the senior manager of finance and operations at Iriver Hong Kong Limited, a private company based in Hong Kong and provides, among others, broadcasting equipment and semiconductors and the holding company of which is listed on the Korea Exchange, for approximately 10 years from March 2001 to June 30, 2011. Ms. Lam obtained a master's degree in business administration from the University of South Australia in March 2012. Ms. Lam is a certified public accountant, a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

## Directors' Report

The Board of Directors is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2017.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its subsidiaries are set out in note 13 to the consolidated financial statements. The Group is a major supplier of camera modules for mobile devices. The Group primarily engages in the design, development, manufacture and sale of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Major customers for the Group's camera modules include some of the leading mobile device manufacturers in the world, such as Apple, LG Electronics and Samsung Electronics. The Group also designs, develops, manufactures and sells optical components used in a number of consumer electronics products. Major customers for the Group's optical components include subsidiaries or affiliates of leading global electronics companies such as Samsung Electronics, LG Electronics and Hitachi.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2017 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 87 to 150.

The Board has recommended the payment of a final dividend of HK5.1553 cents (2016: HK7.9770 cents) per ordinary share for the year ended December 31, 2017 to shareholders whose names appear on the register of members of the Company on Monday, May 28, 2018, subject to the approval of the Shareholders at the forthcoming annual general meeting.

### CLOSURE OF REGISTER OF MEMBERS

The record date for the proposed final dividend will be Monday, May 28, 2018. The Company's register of members will be closed from Thursday, May 24, 2018 to Monday, May 28, 2018 (both days inclusive) in order to determine entitlements to the proposed final dividend. During such period, no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited (the "Share Registrar"), at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, May 23, 2018. Subject to the approval of the Shareholders at the annual general meeting, dividend will be paid to the Shareholders on or around Thursday, June 7, 2018.

### CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING

For determining the entitlement to attend and vote at the annual general meeting of the Company (the "AGM"), the register of members of the Company will be closed from Monday, May 14, 2018 to Thursday, May 17, 2018, both dates inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, shareholders must complete and lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, May 11, 2018.



## Directors' Report

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five years ended December 31, 2017 are set out on page 151 of this annual report. That summary does not form part of the audited financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 22(c) to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

### Distributability of reserves of the Company

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to the Shareholders 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 they fall due in the ordinary course of business.

As at December 31, 2017, the reserves of the Company available for distribution to the Shareholders amounted to approximately US\$66,699,000 (2016: US\$44,762,000).

## DONATIONS

Charitable donations made by the Group during the year ended December 31, 2017 amounted to US\$29,000 (2016: US\$547,000).

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the relevant laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2017.

## Directors' Report

### SHARE OPTION SCHEME

The Company's existing share option scheme (the "Share Option Scheme") was approved for adoption pursuant to written resolution of all of our Shareholders passed on February 4, 2015 for the purpose to provide incentives and/or rewards to eligible persons for their contribution to, and continuing efforts to promote the interests of the Group.

#### Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide an incentive for the Qualified Participants (as defined in paragraph "who may join" below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders, and to maintain or attract business relationship with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

The Board is of the view that the Share Option Scheme may provide the Qualified Participants with the opportunity of participating in the growth of the Group by acquiring shares in the Company which may in turn assist in the attraction and retention of the Qualified Participants. To ensure the achievement of the purpose of the Share Option Scheme, its rules do not specify any minimum holding period and/or performance targets as a condition for the exercise of an option but subject to the determination of the Board. The Board is given the authority under the Share Option Scheme rules to determine and state in the offer letter of grant any minimum holding period and/or performance targets as conditions for exercise of an option. In addition, the Board has the authority under the Share Option Scheme rules to determine the basis of eligibility of any Qualified Participant and the grant of an option on a case by case basis as the Board in its sole discretion considers appropriate. Hence, the Board believes that the rules of the Share Option Scheme will serve to achieve its purpose as well as protect the value of the Company.

#### Who may join

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to:

- (i) any executive director, or employee (whether full time or part time) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest;
- (ii) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest (together with (i) above, "Eligible Employee");
- (iii) any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent or service provider of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest who is an individual; or
- (iv) any full-time employee of any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent, customer or service provider of the Company or any subsidiary or any entity in which the Company or any subsidiary holds any equity interest, who the Board considers, in its sole discretion, has contributed or will contribute to the Company or any subsidiary or any entity in which the Company or any subsidiary holds any equity interest (collectively, the "Qualified Participant").

## Directors' Report

**Maximum number of Shares in respect of which options may be granted**

The maximum number of the Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed the number of Shares that shall represent 5% of the total number of Shares in issue as at the Listing Date (the "Scheme Mandate"), excluding for this purpose options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company, provided that:

- (i) the Company may seek approval by the Shareholders in general meeting for refreshing the Scheme Mandate provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company under the Scheme Mandate as refreshed must not exceed 5% of the total number of Shares in issue as at the date of such shareholder approval. For these purposes, options previously granted under the Share Option Scheme and any other share option schemes of the Company, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already exercised, will not be counted. The Company shall send to the Shareholders a circular containing the information required under Chapter 17 of the Listing Rules;
- (ii) the Company may seek separate approval by the Shareholders in general meeting for granting options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Qualified Participants who are specifically identified before such approval is sought. A circular will be sent by the Company to the Shareholders in accordance with the Listing Rules; and
- (iii) the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed such number of Shares as shall represent 30 per cent of the Shares in issue from time to time. No options may be granted if such grant will result in this 30 per cent limit being exceeded.

The maximum number of Shares in respect of which options may be granted shall be adjusted in such manner as the auditors of the Company shall certify in writing to the Board to be fair and reasonable in the event of any alteration to the capital structure of the Company whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, subdivision or reduction of the share capital of the Company but shall not in any event exceed the limits imposed by the Listing Rules.

**Maximum entitlement of each Qualified Participant**

Unless approved by shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of Shares issued and to be issued to that grantee on exercise of his options (including both exercised and outstanding options) during any 12 month period exceeding 1% of the total Shares then in issue.

**Acceptance of an offer of options**

An offer of the grant of an option shall be made to a Qualified Participant by letter in such form as the Board may from time to time determine, requiring the Qualified Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. The offer shall remain open for such period (not exceeding 30 days, inclusive of, and from, the date of offer) as the Board may determine and notify to the Qualified Participant.

## Directors' Report

An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance in favor of the Company of HK\$1 by way of consideration for the grant of the option shall have been received by the Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Qualified Participant.

### Subscription price

The subscription price shall be a price determined by the Board but in any event shall be at least the highest of:

- (i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of offer;
- (ii) the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and
- (iii) the nominal value of the Shares.

### Restriction on the time of grant of options

The Company may not grant any option after inside information has come to its knowledge until it has announced the information. In particular, it may not grant any option during the period commencing one month immediately before the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Hong Kong Stock Exchange under the Listing Rules) for approving the Company's results for any year, half-year or quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for the Company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement. Without prejudice to the foregoing, no option shall be granted during the period specified in the Listing Rules as being a period during which no option may be granted.

No grant of options shall be made to a Qualified Participant who is a Director during a period in which the Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or the Company's own equivalent code.

### Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable (except for the transmission of an option on the death of any grantee to a person who of succession is entitled to the option). No grantee shall sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt to do so (except that the grantee may nominate a nominee, of which the grantee is the sole beneficial owner, in whose name the Shares issued pursuant to the Share Option Scheme may be registered provided that evidence of such trust arrangement between the grantee and the nominee has been provided to the satisfaction of the Board).

## Directors' Report

**Time of exercise of Option and duration of the Share Option Scheme**

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

Under the share option scheme adopted by the Company on February 4, 2015, the Company has granted share options (the "Option") to certain eligible persons (the "Grantees") for a total of 14,500,000 ordinary shares of US\$0.004 each in the share capital of the Company. Details of the Share Options granted are set out below:

**Share Option 1**

Date of Grant:	October 30, 2015
Exercise price:	HK\$3.76 per Share
Total number of Share Options granted:	An aggregate of 12,600,000 share Options
Exercisable period of The Share Options:	Options are exercisable from January 1, 2018 to October 29, 2025 (both dates inclusive)

**Share Option 2**

Date of Grant:	April 21, 2016
Exercise price:	HK\$3.57 per Share
Total number of Share Options granted:	An aggregate of 1,500,000 share Options
Exercisable period of The Share Options:	Option are exercisable from March 1, 2017 to April 20, 2026 (both dates inclusive)

## Directors' Report

**Share Option 3**

Date of Grant:	June 20, 2016
Exercise price:	HK\$2.92 per Share
Total number of Share Options granted:	An aggregate of 400,000 share Options
Exercisable period of The Share Options:	Option are exercisable from June 20, 2019 to April 20, 2026 (both dates inclusive)

**Share Option 4**

Date of Grant:	June 20, 2017
Exercise price:	HK\$3.04 per Share
Total number of Share Options granted:	An aggregate of 400,000 share Options
Exercisable period of The Share Options:	Option are exercisable from June 20, 2020 to June 19, 2027 (both dates inclusive)

## Directors' Report

Movement of the Option granted under the Share Option Scheme during the year ended December 31, 2017 are listed below:

**Movement of the Options**

	Number of Share Options				As at December 31, 2017	Exercise Price (HK\$)	Closing price of the securities on the Date of Grant (HK\$)	Date of Grant	Vesting Period	Exercisable Period
	As at January 1, 2017	Date of Grant June 20, 2017	Cancelled	Lapsed						
Kim Kab Cheol	3,000,000	—	(3,000,000)	—	—	3.76	3.75	October 30, 2015	October 31, 2015 to December 31, 2017	January 1, 2018 to October 29, 2025
Seong Seokhoon	1,000,000	—	—	—	1,000,000	3.76	3.75	October 30, 2015	October 31, 2015 to December 31, 2017	January 1, 2018 to October 29, 2025
Lee Dong Goo	1,000,000	—	—	—	1,000,000	3.76	3.75	October 30, 2015	October 31, 2015 to December 31, 2017	January 1, 2018 to October 29, 2025
Continuous contract employee	4,000,000	—	(150,000)	—	3,850,000	3.76	3.75	October 30, 2015	October 31, 2015 to December 31, 2017	January 1, 2018 to October 29, 2025
<b>Continuous contract employee</b>	400,000	—	—	—	400,000	2.92	2.83	June 20, 2016	June 21, 2016 to June 19, 2019	June 20, 2019 to April 20, 2026
<b>Continuous contract employee</b>	—	400,000	—	—	400,000	3.04	3.04	June 20, 2017	June 21, 2017 to June 19, 2020	June 20, 2020 to June 19, 2027
<b>Total</b>	9,400,000	400,000	(3,150,000)	—	6,650,000					

Other details of Options granted by the Company are set out in note 20 to the consolidated financial statements.

## Directors' Report

### SUBSIDIARIES

Details of the Company's subsidiaries as at December 31, 2017 are set out in note 13 to the consolidated financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2017, the percentage of the Group's revenue attributable to the Group's largest customers and the five largest customers in aggregate were 85.5% and 98.6% (2016: 85.3% and 99.6% respectively) respectively.

During the year ended December 31, 2017, the percentage of the Group's purchases attributable to the Group's largest suppliers and the five largest suppliers in aggregate were 46.6% and 73.0% (2016: 43.5% and 68.0% respectively) respectively.

During the year ended December 31, 2017, none of the Directors or any of their associates or any shareholders which to the best knowledge of the Directors, who own more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers or suppliers.

### RETIREMENT BENEFIT SCHEMES

The Group participated in various retirement benefit schemes in accordance with relevant rules and regulations in the PRC, Hong Kong and Korea. Particulars of the retirement benefit schemes are set out in note 19 to the consolidated financial statements.

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. Details of the remuneration of each Director for the year ended December 31, 2017 are set out in note 7 to the consolidated financial statements of this annual report.

The remuneration of members of the senior management by band for the year ended December 31, 2017 is set out below:

<b>Remuneration Bands:</b>	<b>2017</b>	<b>2016</b>
	<b>Number of</b>	<b>Number of</b>
	<b>individuals</b>	<b>individuals</b>
HK\$1 (US\$0.129)–HK\$1,000,000 (US\$129,000)	1	2
HK\$1,000,001 (US\$129,000)–HK\$1,500,000 (US\$193,000)	1	2
HK\$1,500,001 (US\$193,000)–HK\$2,000,000 (US\$258,000)	—	—
HK\$2,000,001 (US\$258,000)–HK\$2,500,000 (US\$322,000)	1	1
HK\$2,500,001 (US\$322,000)–HK\$3,000,000 (US\$387,000)	—	—



## DIRECTORS

The Directors during the 2017 financial year and up to the date of this annual report are:

### Executive Directors

Mr. Seong Seokhoon (*Chairman*)

Mr. Lee Dong Goo (*appointed with effect on May 18, 2017*)

Mr. Kim Kab Cheol (*resigned on September 30, 2017*)

### Independent non-executive Directors

Mr. Kim Chan Su

Dr. Song Si Young

Mr. Andrew Look (*appointed on March 23, 2017 with effect from April 3, 2017*)

Mr. Kim Ilung (*resigned on March 23, 2017*)

In the forthcoming annual general meeting of the Company, Mr. Seong Seokhoon, Mr. Lee Dong Goo and Dr. Song Si Young will retire as Directors in accordance with Article 16.18 of the Articles of Association and, being eligible, will offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

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

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2017.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the contracts described under the paragraph headed "Connected Transactions and Continuing Connected Transactions" below and note 26 to the consolidated financial statements, no contracts of significance in relation to the Group's business or for the provision of services to which the Company or any of its subsidiaries was a party and in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of 2017 or at any time during 2017.

## CONTRACTS WITH CONTROLLING SHAREHOLDERS

No transaction, arrangement or contract of significance has been entered into among the Company or any of its subsidiaries and the controlling shareholders during the year ended December 31, 2017.

## Directors' Report

### **CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS**

#### **Continuing connected transactions**

The business relationship with Bai Shi was terminated on January 1, 2017.

### **RELATED PARTY TRANSACTIONS**

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in note 26 to the consolidated financial statements.

### **DEED OF NON-COMPETITION**

Pursuant to a deed of non-competition dated March 10, 2015 (the "Deed of Non-competition") entered into among Mr. Kwak Joung Hwan and Hahn & Co. Eye (the "Covenantors") and the Company, the Covenantors have given certain non-competition undertakings in favour of the Company. Please refer to the Prospectus for details of the terms of the Deed of Non-competition. Since Hahn & Co. Eye has ceased to be a controlling shareholder (as defined in the Listing Rules) of the Company immediately following the completion of the Global Offering, Hahn & Co. Eye has not been subject to the Deed of Non-competition from the Listing Date.

The independent non-executive Directors have conducted its annual review and confirmed that Mr. Kwak Joung Hwan has fully complied with the Deed of Non-competition for the year ended December 31, 2017. Going forward, the independent non-executive Directors will continue to review, on an annual basis, Mr. Kwak Joung Hwan's compliance with the Deed of Non-competition (in particular, the right of first refusal relating to any business opportunity) and Mr. Kwak will provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors. The Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance with and enforcement of the Deed of Non-competition in its next annual report or by way of announcement to the public.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at December 31, 2017, none of the Directors is interested 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.

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

As at December 31, 2017, so far as is known to the Directors, none of the Directors or the chief executive officers of the Company had any interests or short positions in the Shares, underlying Shares or debenture of the Company or its associated corporations which were (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## Directors' Report

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

As at December 31, 2017, the following persons had interests or short positions in our Shares or relevant Shares which were required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO:

### Interest of substantial shareholders

Name of shareholder	Nature of interest	Number of Shares or underlying Shares <sup>(2)</sup>	Approximate percentage of shareholding interest
Mr. Kwak Joung Hwan	Beneficial interest	374,159,400	45.00
Ms. Yang Won Sun <sup>(1)</sup>	Interest of spouse	374,159,400	45.00

Notes:

- (1) Ms. Yang Won Sun is the spouse of Mr. Kwak. Under Part XV of the SFO, Ms. Yang is deemed to be interested in the same number of Shares in which Mr. Kwak is interested.
- (2) All interests are long positions.

The interest of the substantial shareholders in the Options are detailed in the "Share Option Scheme" section.

Save as disclosed above as at December 31, 2017, the Directors were not aware of any person (other than the Directors or chief executive and substantial shareholders of the Company the interests of which were disclosed above) who had an interest or short position in the securities of the Company that were required to be entered in the register of the Company pursuant to section 336 of the SFO as at December 31, 2017.

## STATUS OF USE OF PROCEEDS

The aggregate net proceeds from the Global Offering was approximately US\$37.8 million and the Company planned to use the proceeds, as indicated in the Prospectus, in the following manner:

1. Approximately 66% of the net proceeds for the enhancement of production capacity for fixed-focus camera modules and the manufacturing facilities for high-end camera modules;
2. Approximately 13% of the net proceeds for the enhancement of existing production lines for high-end COB camera modules;
3. Approximately 12% of the net proceeds for the repayment of a term bank loan; and
4. Approximately 9% of the net proceeds for working capital and other general corporate purposes.

## Directors' Report

Since the IPO, all net proceeds were used in accordance with the original plan except on investment plan for COB camera modules. Investment plan for COB camera modules has been delayed mainly due to the slow growth rate of global smartphone industry. Up until the year ended December 31, 2017, a total of US\$2.9 million, representing 59.2% of the net proceeds allocated to the enhancement of production lines for high-end COB camera modules, has been utilized. The remaining balance of US\$2.0 million is scheduled to be used for machine and equipment for high-end COB camera modules in the fiscal year of 2018.

### **SUFFICIENCY OF PUBLIC FLOAT**

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

### **EVENTS AFTER THE FINANCIAL YEAR ENDED DECEMBER 31, 2017**

Save as disclosed above, there were no significant events affecting the Company nor any of its subsidiaries after the financial year ended December 31, 2017 requiring disclosure in this report.

### **CORPORATE GOVERNANCE**

Principal corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" section on pages 37 to 62 of this annual report.

### **AUDIT COMMITTEE**

The audit committee of the Company (the "Audit Committee") has reviewed together with the management and KPMG, the Company's auditor, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2017.

### **AUDITOR**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of KPMG as the Company's auditors is to be proposed at the forthcoming annual general meeting of the Company.

### **ENVIRONMENTAL POLICIES**

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

## Directors' Report

**COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS**

During the year ended December 31, 2017, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by our Group that have a significant impact on the business and operations of the Group.

**FINANCIAL KEY PERFORMANCE INDICATORS**

For the year ended December 31, 2017, the Group's total revenue decreased by 19.0% to US\$740.7 million (2016: US\$914.5 million). Profit for this year decreased by 3.2% to US\$27.6 million (2016: US\$28.5 million). Net profit margin was 3.7% (2016: 3.1%) for the year ended December 31, 2017. Earnings per share were US\$0.033 (2016: US\$0.034). The Board has proposed a final dividend of approximately HK5.1553 cents (equivalent to US\$0.664 cents) for the year ended December 31, 2017. Together with the interim dividend of HK1.7179 cents per share, the dividend for the full year will be HK6.8732 cents (2016: HK7.9770 cents, equivalent to US\$1.028 cents) per ordinary share for the year ended December 31, 2017.

Overall revenue decrease was mainly due to slowing growth of the global smartphone industry and shrinking DVD market.

The Group financial position still remained solid. The Group was able to generate positive operating cashflows for the year ended December 31, 2017 which amounted to US\$60.4 million (2016: US\$17.6 million). The increase in operating cash inflow in 2017 as compared to that 2016 was mainly due decreased trade receivable and decreased trade payable.

Average inventory turnover days of the Group were 45.8 days for 2017, higher than the 35.1 days for 2016. The increase in inventory turnover days for the year 2017 was due mainly to delayed product launching. Average turnover days of trade receivables increased to 78.9 days for the year ended December 31, 2017 as compared to 57.5 days for the year ended December 31, 2016 which was due primarily to decrease in the sales as of December 31, 2017. Average trade payable turnover days were 65.2 days for the year ended December 31, 2017 as compared to 51.1 days for the year ended December 31, 2016 which was primarily decrease in the sales as of December 31, 2017.

## Directors' Report

### KEY RELATIONSHIPS

#### (i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members.

In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted the Share Option Scheme to recognize and reward the contribution of the employees to the growth and development of the Group.

#### (ii) Suppliers

We have developed long-standing relationships with a number of our suppliers and take a great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

#### (iii) Customers

We are committed to offer quality services to our customers. We also stay connected with our customers and keep them updated of our latest business developments.

Details of principal risks are set out in corporate governance report and detail of future development is set out in management discussion and analysis.

### CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

On behalf of the Board  
**Cowell e Holdings Inc.**  
**Seong Seokhoon**  
*Chairman*

Hong Kong, March 22, 2018

# Corporate Governance Report

The Company believes that maintaining high standards of corporate governance is the foundation for effective management and successful business growth. The Company is committed to developing and maintaining robust corporate governance practices to safeguard the interests of Shareholders and to enhance corporate value, accountability and transparency of the Company.

The Company has adopted the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) set out in Appendix 14 to the Listing Rules as the basis of the Company’s corporate governance practices. The CG Code has been applicable to the Company with effect from the Listing Date. Throughout the period from the Listing Date up to the publication date of this annual report, the Company has complied with all applicable code provisions of the CG Code, with the exception that the roles of Chairman and Chief Executive of the Group were both vested in Mr. Seong Seokhoon, details of which are disclosed in the paragraph headed “Chairman and Chief Executive” below.

## SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors’ dealings in the securities of the Company.

The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code throughout the period from the Listing Date to the publication date of this annual report.

## THE BOARD OF DIRECTORS

### Board Responsibilities

The Board is at the core of the Company’s corporate governance structure, and is responsible for the overall strategic leadership and planning of the Company. All important matters of the Company are reserved for the Board’s decision and the Board retains the authority of deciding such matters, including formulating and monitoring the Company’s long term strategies and policy matters, reviewing financial performance, approving annual budgets, monitoring and reviewing internal control and risk management systems, assuming responsibility for the corporate governance of the Company, and upholding the core values of the Company.

### Delegation by the Board

The Board relies on management for the day-to-day operation of the Company’s business, and has delegated the authority and responsibility for the daily management, administration and operation of the Group as well as the implementation of the Board’s policies and strategies to the senior management of the Group. The Board and senior management fully appreciate their respective responsibilities, and they complement each other in formulating and maintaining higher standards of corporate governance practices of the Company.

## Corporate Governance Report

### Board Composition

The Board is structured with a view to ensuring that it is of high caliber and has a balance of skills and experience appropriate for the needs of the Company's business. The Board currently comprises four members, consisting of two executive Directors and two independent non-executive Directors as set out below.

#### **Executive Directors**

Mr. Seong Seokhoon (*Chairman*)

Mr. Lee Dong Goo (*appointed with effect from May 18, 2017*)

Mr. Kim Kab Cheol (*resigned on September 30, 2017*)

#### **Independent non-executive Directors**

Mr. Kim Chan Su

Dr. Song Si Young

Mr. Andrew Look (*appointed on March 23, 2017 with effect from April 3, 2017*)

Mr. Kim Ilung (*resigned on March 23, 2017*)

Further description of the biographical details and backgrounds of the Board members are set out under the section headed "Directors and Senior Management" in this annual report. A list of the Directors is available on the designated website of the Hong Kong Stock Exchange and the website of the Company.

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

### Non-executive Director

Under the Articles of Association, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Retiring Directors shall be eligible for re-election at the annual general meeting at which he retires.

### Independent Non-executive Directors

Mr. Andrew Look ("Mr. Look") was appointed as an independent non-executive Director on March 23, 2017. Following the resignation of Mr. Kim Ilung and prior to the appointment of Mr. Look to take effect on April 3, 2017, the Company had only two independent non-executive Directors, namely Mr. Kim Chan Su and Dr. Song Si Young, and the Audit Committee comprised only two members, namely Mr. Kim Chan Su and Dr. Song Si Young, and therefore did not meet the requirements under rules 3.10(1) and 3.21 of the Listing Rules, which requires every issuer to have at least three independent non-executive directors and the audit committee of every issuer to comprise a minimum of three members respectively. Upon the appointment of Mr. Look with effect from April 3, 2017, the Company has three Independent non-executive Directors and the Audit Committee comprises of three members and therefore the Company is in compliance with the requirements under rules 3.10(1) and 3.21 of the Listing Rules.



## Corporate Governance Report

Independent non-executive Directors play an important role in the Board by bringing independent judgment and advice and through scrutiny of the Company's performance. Since the Listing Date and up to the publication date of this annual report, save as disclosed above, the Company has been in compliance with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing the appropriate professional qualifications or accounting or related financial management expertise. The Company has also complied with Rule 3.10A of the Listing Rules which requires that independent non-executive Directors appointed must represent at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules, and the Company considers each of them to be independent with reference to the criteria set out in Rule 3.13 of the Listing Rules.

The Board will continue to review and consider whether there are any circumstances that are likely to affect the independence of the independent non-executive Directors.

### **CHAIRMAN AND CHIEF EXECUTIVE**

Pursuant to Code Provision A.2.1 of the CG Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. However, during the year ended 31 December 2017, the Company did not have a separate chairman and chief executive and Mr. Seong Seokhoon had been performing these two roles at the same time. The Board had considered that having Mr. Seong acting as both the chairman of the Board and the Company's chief executive officer would provide a strong and consistent leadership to the Company and allow for more effective planning and management for the Group. The Board had taken into account Mr. Seong's extensive experience in the industry, personal profile and critical role in the Group and its historical development.

Mr. Seong Seokhoon has been serving as the co-chief executive officer of the Company with effect on May 18, 2017. Upon Mr. Kim Kab Cheol's resignation from all his positions with the Company on September 30, 2017, Mr. Seong has been redesignated as the Company's sole chief executive officer with effect on September 30, 2017.

Save as disclosed above, the Directors consider that the Company has fully complied with the applicable code provisions as set out in the Code of Corporate Governance Practices as contained in Appendix 14 during the year ended December 31, 2017.

## Corporate Governance Report

### APPOINTMENT, RETIREMENT AND RE-ELECTION OF DIRECTORS

The Articles of Association provide that 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. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting of the Company, one-third of the current Directors should retire from office by rotation, provided that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

The nomination committee of the Company (the "Nomination Committee") is responsible for reviewing the Board's structure, size and composition and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning of Directors.

### INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors have been provided with relevant training to ensure that they fully understand their responsibilities, duties and obligations as directors of a listed company.

Pursuant to the Code Provision A.6.5, the Company has received from the below directors, being all Directors at the year ended date, a record of the training they received for the year 2017.

Directors	Reading materials	Attend Seminars/ conference/ workshops
<b>Executive Directors</b>		
Seong Seokhoon	√	√
Lee Dong Goo	√	√
<b>Independent Non-Executive Directors</b>		
Kim Chan Su	√	√
Song Si Young	√	√
Andrew Look	√	√

The Directors will continue to be updated by the Company on any changes or developments affecting their obligations as directors of a listed company.

## Corporate Governance Report

**BOARD MEETINGS**

Notice of regular Board meetings is given to each Director at least 14 days before the meeting. The agenda and the relevant board papers are circulated to each Director at least three days before regular Board meetings to enable them to make informed decisions at the meeting.

**ATTENDANCE RECORDS OF BOARD MEETINGS**

Code provision A.1.1 of the CG Code requires that at least four regular Board meetings should be held each year at approximately quarterly intervals, with active participation of a majority of directors, either in person or through other electronic means of communication.

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Other Board meetings will be held if necessary.

Details of Directors' attendance records in 2017 are set out below:

Directors	Board	Meetings Attended/Held			2016 AGM
		Audit Committee	Remuneration Committee	Nomination Committee	
<b>Executive Directors</b>					
Seong Seokhoon	11/11	N/A	4/4	2/2	1/1
Lee Dong Goo	8/11	N/A	N/A	N/A	N/A
<b>Independent Non-Executive Directors</b>					
Kim Chan Su	10/11	6/6	4/4	2/2	1/1
Song Si Young	9/11	6/6	4/4	2/2	0/1
Andrew Look	8/11	4/6	N/A	N/A	1/1

The date of each meeting is decided in advance to enable the Directors to attend the meeting. Draft notice and agenda were sent to all Directors at least 3 days prior to the meeting. Management also supplies the Board and its Committees with sufficient information and explanations so as to enable them to make an informed assessment of financial and other information out before the Board and its Committee for approval. Management is also invited to join Board Meetings where appropriate.

If a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter. The interest Director shall abstain from voting when appropriate.

## Corporate Governance Report

### PERMITTED INDEMNITY PROVISION

The Articles of Associations provides that the Directors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and senior management members as well as directors of the subsidiaries of the Group.

### BOARD COMMITTEES

The Board has established three Board committees to oversee particular aspects of the Company's affairs, namely the Audit Committee, the remuneration committee of the Company (the "Remuneration Committee") and the Nomination Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. The independent non-executive Directors, as members of the various Board committees, bring their range of experiences and expertise and provide objective perspectives to them. The Board has provided the Board committees with sufficient resources to discharge their duties, and the Board committees may seek independent professional advice as and when required at the Company's expense.

#### Audit Committee

The Audit Committee comprises three members, all of whom are independent non-executive Directors. It is currently chaired by Mr. Kim Chan Su (independent non-executive Director), and its other members are Dr. Song Si Young (independent non-executive Director) and Mr. Andrew Look (newly appointed as independent non-executive Director with effect from April 3, 2017).

The primary functions of the Audit Committee include the following:

- making recommendations to the Board on the appointment, reappointment and removal of external auditors, and to approve remuneration and terms of such engagement;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- discussing with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
- developing and implementing policy on engaging external auditors to supply non-audit services;
- monitoring the integrity of the Company's financial statements and annual report and accounts, half-yearly reports and, if prepared for publication, quarterly reports, and to review significant financial reporting opinions contained in them;

## Corporate Governance Report

- reviewing the Company's financial controls, internal control and risk management systems and discussing the internal control system with management to ensure that management has performed its duty to have an effective internal control system;
- considering major investigation findings on internal control matters as delegated by the Board or on the Audit Committee's own initiative, as well as management's response to these findings; and
- reviewing the Group's financial and accounting policies and practices.

The written terms of reference of the Audit Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Audit Committee holds at least two meetings each year from 2015 onwards. The Audit Committee held six meetings during the financial year of 2017.

### Remuneration Committee

The Remuneration Committee comprises three members. It is currently chaired by Dr. Song Si Young (independent non-executive Director), and its other members are Mr. Kim Chan Su (independent non-executive Director) and Mr. Seong Seokhoon (executive Director). It has an overall majority of independent non-executive Directors.

The primary functions of the Remuneration Committee include the following:

- reviewing and making decisions in respect of the remuneration packages and overall benefits for the Directors and senior management of the Company based on the Board's delegation given on April 15, 2015;
- making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making decisions on the remuneration packages of individual executive directors based on the Board's delegation given on April 15, 2015;
- making recommendations to the Board on the remuneration of non-executive directors; and
- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The written terms of reference of the Remuneration Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Remuneration Committee holds at least one meeting each year from 2015 onwards.

## Corporate Governance Report

### Nomination Committee

The Nomination Committee comprises three members. It is currently chaired by Mr. Seong Seokhoon (executive Director), and its other members are Dr. Song Si Young (independent non-executive Director) and Mr. Kim Chan Su (independent non-executive Director). It has an overall majority of independent non-executive Directors.

The primary functions of the Nomination Committee include the following:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on the appointment or reappointment of Directors and succession plan for Directors; and
- reviewing the board diversity policy regularly.

The Nomination Committee has a board diversity policy under which, with the assistance of the Nomination Committee, the Company will implement its Board members selection process by referring to various factors, including but not limited to gender, age, cultural and educational background, professional expertise, independence, skills, knowledge and length of service. Decision shall ultimately be made based on the merits of and contribution to be made by the candidate.

The written terms of reference of the Nomination Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Nomination Committee will hold at least one meeting each year from 2015 onwards.

### CORPORATE GOVERNANCE FUNCTIONS

The corporate governance functions have been reserved to the Board. The primary governance functions include:

- developing and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's compliance with the CG Code and other legal and regulatory requirements;
- developing, reviewing and monitoring any code of conduct and compliance manual applicable to Directors and employees of the Company; and
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## Corporate Governance Report

### ACCOUNTABILITY AND AUDIT

#### Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2017, presenting a balanced, clear and comprehensible assessment of the Company's performance, position and Prospects, and for ensuring that the financial report are prepared in accordance with applicable statutory requirements and accounting standards. To the best knowledge, information and belief of the Directors, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The management of the Company has provided the Board with such explanation and information necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

#### Internal Control

The Board acknowledges that it is its responsibility to maintain an adequate internal control system to safeguard Shareholders' investment and the Company's assets, and to review the effectiveness of such system on an annual basis, including considering the adequacy of resources, staff qualifications and experience, training programs for staff and budget of the Group's accounting and financial reporting function.

The Audit Committee and the Board has conducted a review of the effectiveness of the internal control system of the Group and considers the internal control system to be effective and adequate.

#### Auditor's Remuneration

For the year ended December 31, 2017, the total remuneration paid or payable to the Company's auditors for audit services amounted to US\$0.4 million.

### COMPANY SECRETARY

Ms. Lam Wing Yan is the Company's company secretary, and she is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are followed.

The Company will provide funds for Ms. Lam Wing Yan for her to take not less than 15 hours of appropriate continuous professional training in each financial year as required under Rule 3.29 of the Listing Rules.

## Corporate Governance Report

### SHAREHOLDERS' RIGHTS

#### Convening of extraordinary general meeting and putting forward proposals

Pursuant to Article 12.3 of the Articles of Association, extraordinary general meetings shall be convened on the requisition of two or more Shareholders holding, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing and deposited at the principal office of the Company in Hong Kong and the business to be dealt with shall be specified in such requisition. Such meeting shall be held within the further 21 days after such requisition being proceeded within 21 days of its deposition in the manner as described above. If within 21 days of such deposit, the Board fails to proceed to convene such meeting within a further 21 days, the requisitionist(s) or any of them representing more than one-half of the total voting rights of all of them may do so in the same manner on or before the expiration of 3 months from the date of the deposit of requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

#### Constitutional Documents

Pursuant to a special resolution of the Shareholders passed on March 10, 2015, the Amended and Restated Memorandum and Articles of Association were adopted with effect from the Listing Date, copies of which are available on both the websites of the Hong Kong Stock Exchange and the Company.

#### Communication with Shareholders and investor relations

The Board recognizes that it is accountable to its stakeholders, and values the importance of communications with Shareholders. The Company is dedicated to maintaining an open dialogue with its Shareholders, and it will continually improve its communications with Shareholders to obtain their feedback.

The Company has established a shareholder communication policy to ensure effective communication with its Shareholders. The Company's corporate website also serves as a channel for Shareholders to access information about the Group. The Group's key corporate governance policies and documents, including the terms of reference of the various Board committees, as well as all communications for Shareholders including the Group's financial reports and announcements, are available on the website.

Shareholders are welcome to send their request for general meeting, proposed resolutions or enquiries to the Board to the primary contact person of the Company as follows:

Cowell e Holdings Inc.  
Suite 3208-9  
32/F Tower 6  
The Gateway  
9 Canton Road  
Tsimshatsui  
Kowloon  
Hong Kong  
Attention: Ms. Lam Wing Yan  
Email: carol@cowell.com.hk



Corporate Governance Report

**RISK MANAGEMENT REPORT**

Cowell e Holdings Inc. (The “Company”) is committed to the risk management and internal control, which are deeply embedded into the integral part of its operations. The management of the Company has been focusing on internal policies and strategies to minimize risks while making every endeavor to achieve its missions and objectives. In order to manage and control the identified risks as well as unexpected risks, the Company has designed and developed risk management framework and tools. Applying sound risk management framework and tools, the Company has made proper assessment of the risks and strived to manage the risks within the boundary of the board (the “Board”) of directors’ risk appetite.

**1. PRINCIPLE RISKS**

The Board has defined principal risks that the Company has to confront with in order to achieve its strategic objectives.

The principle risks, risk mitigating strategies and key performance indicators (the “KPI”)s that the Board has identified are illustrated below:

1. STRATEGIC RISKS			
Risk Description	Current Situation/Risk Mitigating Strategy	Key Performance Indicators (KPI) & Status	CHANGES IN 2017
<p><b>1.1 Single Customer Concentration Risk:</b> The Company currently sells a substantial portion of its camera modules and optical components to a limited number of customers. The Company’s dependence on these customers may cause material fluctuations or declines in revenue.</p>	<p><b>1. Current Situation</b></p> <ul style="list-style-type: none"> <li>- Smartphone business is slowing globally</li> <li>- Major US customer’s new product launch was delayed in 2017</li> <li>- Chinese smartphone makers’ enlarging market share led order reduction from LG and Samsung</li> </ul> <p><b>2. Risk Mitigating Strategy</b></p> <ul style="list-style-type: none"> <li>- <b>Short Term:</b> Improving production yield and enhancing resource management to strengthen pricing competitiveness</li> <li>- <b>Medium Term:</b> Focusing on high-end products and product diversification</li> <li>- <b>Long Term:</b> Expanding customer base with new products to be developed by new R&amp;D Centre and exploring into new industry other than smartphone industry</li> </ul>	<ol style="list-style-type: none"> <li>1. # of days that the production yield is lower than the management’s comfort zone</li> <li>2. No case to trigger an escalation to Group Risk Management Committee (“GRMC”) in 2017</li> <li>3. Based on Audit Committee’s recommendation, the dependency on each customer and projected share allocation from the customers were added as new KPIs.</li> </ol>	<ul style="list-style-type: none"> <li>• Competition in the supply chain due to increased # of suppliers</li> <li>• Delayed new product shipment due to customer’s delayed new product launching</li> <li>• Lower than expected new product sales</li> <li>• Chinese smartphone makers’ enlarging market share</li> </ul>
<p><b>1.2 Technology Risk:</b> The Company’s continued success depends on its ability to respond to technological upgrade demanded by major customers, which requires talented engineers. The Company’s failure to further refine its technology and retain talented engineers could weaken its product competitiveness which may result in lower sales and market share.</p>	<p><b>1. Current Situation</b></p> <ul style="list-style-type: none"> <li>- Highly talented engineers are scarce resource and maintaining talent pool is challenging due to relatively high turnover ratio</li> <li>- Competition in the flip chip camera module business is manageable due to high entry barrier due to high technology significant investment and long payback period</li> </ul> <p><b>2. Risk Mitigating Strategy</b></p> <ul style="list-style-type: none"> <li>- Enhancing automation</li> <li>- Hiring &amp; retaining talented engineers by offering attractive compensation and implementing talent pool retention program</li> </ul>	<ol style="list-style-type: none"> <li>1. Retention ratio of the talent pool</li> <li>2. No case to trigger an escalation to GRMC in 2017</li> <li>3. Maintained high retention ratio in 2017 (90%)</li> <li>4. A larger talent pool for 2018 has been established to retain more talented engineers</li> </ol>	<ul style="list-style-type: none"> <li>• Kept investing in production line automation</li> <li>• Maintained high retention ratio of 2017 talent pool</li> <li>• Strived to hire more local talented engineers</li> <li>• Implemented a program to incentivize talented engineers to let them focus on work</li> <li>• Registered patents to secure our processing technology</li> </ul>
2. LEGAL & REGULATORY RISKS			
Risk Description	Current Situation/Risk Mitigating Strategy	Key Performance Indicators (KPI) & Status	CHANGES IN 2017
<p><b>2.1 Legal &amp; Compliance Risk:</b> Non-compliance with Hong Kong Listing Rules and local regulations where we operate (Cayman, China, Hong Kong and Korea) may result in adverse publicity and potentially significant monetary damages and fines</p>	<p><b>1. Current Situation</b></p> <ul style="list-style-type: none"> <li>- No material violation or breach of Hong Kong Listing Rules and/or local regulations and laws where we operate (Cayman/China/Hong Kong and Korea)</li> </ul> <p><b>2. Risk Mitigating Strategy</b></p> <ul style="list-style-type: none"> <li>- Maintained external legal advisors for both Hong Kong and China to ensure a full compliance with Hong Kong listing rules and local regulations</li> <li>- Conducting internal audit and mobilizing group risk management committee to manage any unexpected situation</li> </ul>	<ol style="list-style-type: none"> <li>1. # of critical findings during monthly internal audit</li> <li>2. # of enquiries, guidance or warnings from the Authority</li> <li>3. No case to trigger an escalation to GRMC in 2017</li> </ol>	<ul style="list-style-type: none"> <li>• Maintained a sound risk management &amp; internal control system</li> <li>• Expanded support from external legal &amp; compliance professionals</li> <li>• No enquiry from the authority on any regulatory concern</li> </ul>
<p><b>2.2 Risk from mis-handling customers’ confidential information:</b> The Company has signed Non-Disclosure Agreements (“NDA”) with all major customers and any breach of the NDAs may cause serious financial penalties.</p>	<p><b>1. Current Situation</b></p> <ul style="list-style-type: none"> <li>- No breach of NDAs has been escalated</li> <li>- No inside information on disclosure case has been reported</li> </ul> <p><b>2. Risk Mitigating Strategy</b></p> <ul style="list-style-type: none"> <li>- Reinforcing the inside information handling policy</li> <li>- Strengthen the level of security</li> <li>- Executing internal audit processes</li> <li>- Providing training on inside information handling policy to all employees</li> </ul>	<ol style="list-style-type: none"> <li>1. # of security rule violation and the amount of financial loss caused by the violation</li> <li>2. No case to trigger an escalation to GRMC in 2017</li> </ol>	<ul style="list-style-type: none"> <li>* Conducted regular NDA and inside information related training for all employees in 2017</li> </ul>

Corporate Governance Report

3. OPERATIONAL RISKS			
Risk Description	Current Situation/Risk Mitigating Strategy	Key Performance Indicators (KPI) & Status	CHANGES IN 2017
<p><b>3.1 Production &amp; Operational Risks:</b> Securing sufficient factory labor in a timely manner is critical for production plan and execution. Work stoppages and other labor-related issues may adversely affect our operation. In addition, delaying installation of machine and equipment in the production line has negative impact on the production.</p>	<p><b>1. Current Situation</b></p> <ul style="list-style-type: none"> <li>- Efficiently managed production in line with production plan by sourcing sufficient labor in a timely manner despite the seasonality of Chinese labor market in Dongguan and high turnover</li> <li>- There was a case in 2017 which triggered an escalation to GRMC; However, it was not due to labor shortage, but due to delaying machine &amp; equipment installation in the production line. The case was closed within 4 business days.</li> </ul> <p><b>2. Risk Mitigating Strategy</b></p> <ul style="list-style-type: none"> <li>- Expanding factory labor recruiting channel</li> <li>- Initiated factory labor retention program</li> <li>- Production line automation</li> </ul>	<p>1. # of days with production shortage against production plan</p> <p>2. One case to trigger an escalation to GRMC in 2017, which was caused by not labor shortage, but delayed installation of machine and equipment in the production line. Remedy action was taken instantaneously and the case was closed shortly.</p>	<p style="text-align: center;">↑</p> <p><b>Lowered liquidity of the labor market in China due to:</b></p> <ol style="list-style-type: none"> <li>1. Decreased working population in China; and</li> <li>2. Lessened shift of labor among different regions in line with Chinese government's initiative to develop inner China</li> </ol>

4. FINANCIAL RISKS			
Risk Description	Current Situation/Risk Mitigating Strategy	Key Performance Indicators (KPI) & Status	CHANGES IN 2017
<p><b>4.1 Foreign Exchange Risk:</b> Mismatching currencies in sales and procurements contracts may adversely affect the Company's financial results. Furthermore, operating subsidiaries in multiple countries increase FX exposure local currency for the operating expenses.</p>	<p><b>1. Current Situation</b></p> <ul style="list-style-type: none"> <li>- Trying to maintain USD as core currency for both sales and procurements</li> <li>- Operating subsidiaries in multiple countries caused FX valuation gain or loss which may mislead the Company's actual financial results</li> </ul> <p><b>2. Risk Mitigating Strategy</b></p> <ul style="list-style-type: none"> <li>- Maximizing natural hedging position by matching currencies in sales and procurements contracts</li> <li>- Recording actual FX transaction gain or loss as well as FX valuation gain or loss on a regular basis to monitor the situation and providing this report to GRMC and Audit Committee on a regular basis</li> </ul>	<p>1. Natural hedging position (Total procurement amount settled in USD/Total sales settled in USD)</p> <p>2. FX transaction gain or loss with a trigger point to make an escalation to GRMC and Audit Committee</p> <p>3. No case to trigger an escalation to GRMC in 2017</p>	<p style="text-align: center;">↑</p> <ol style="list-style-type: none"> <li>1. Maintained the natural hedging position within the management's comfort zone; and</li> <li>2. About 6.3% CNY appreciation in 2017 had led marginal FX loss</li> </ol>



**2. PHILOSOPHY & OBJECTIVES OF THE COMPANY'S RISK MANAGEMENT SYSTEM**

Managing risk is an ongoing process in the presence of uncertainties and should involve employees at all levels. Therefore, risk management cannot be practically performed on a standalone basis. All employees are required to be responsible and accountable for managing risk in so far as is reasonably practicable within the area of their responsibility. The principles and practices of sound risk management must be fully integrated into all business units' normal management strategy, planning and operational processes. Reflecting this philosophy, the Company has prepared and implemented its prudent risk management system.

## Corporate Governance Report

The objectives of the Company's risk management system are to:

- outline its systematic approach to risk management to achieve strategic and operational objectives of the Company;
- improve decision-making, accountability and outcomes through the effective use of risk management system;
- integrate risk management system into daily operations; and
- reduce any potential financial loss, protect the brand and reputation and optimize business performance in a controlled manner when opportunities arise.

### 3. RISK APPETITE

In pursuit of its strategic objectives, the Board and the management of the Company is willing to undertake risks only if they shall not jeopardize:

- the relationship with major customers;
- health and safety of stakeholders including employees, suppliers, customers, etc.;
- the viability of the Company due to intractable financial loss;
- environment of the community and nation;
- the Company's reputation and brand name; and
- business license due to breach of regulations and laws where the Company operates

### 4. RISK TAXONOMY

At the highest level, the risks that the Company may have to confront with in order to achieve its strategic objectives can fall into the following risk categories:

- Strategic Risks: relating to the Group's business model and strategy such as demand shortfall, customer retention, pricing pressure, industry or sector downturn and failure to achieve technology upgrades;
- Operational Risks: risks that can be typically managed from within the business such as cost overrun, operating controls, poor capacity management, supply chain issues, employee issues including fraud, bribery and corruption and raw material prices;
- Financial Risks: the risks relating to inadequate liquidity management and unfavorable changes in the financial market such as interest rates and foreign exchange; and
- Compliance/Regulatory risks: relating to legal, regulatory and stakeholders considerations

## Corporate Governance Report

### 5. RISK MANAGEMENT PROCESS

The Company adopts an integrated and structured approach to risk management, which consists of 4 steps to follow.

#### **A. Risk Identification**

Day-to-day risk management resides with the individual business units; therefore, departmental manager of each business units is accountable for the identification of the risks and their assessments as well as their bottom-up reporting in order to achieve strategic and operational objectives.

#### **B. Mitigation Control and Assurance Activities**

Every risk identified must be carefully evaluated and all the root causes of the identified risks should be assessed in order to find mitigating factors of the risk and ways to monitor and control the risk in an effective manner. The internal audit, as the 3rd line of defense explained in the section 7.A., will need to carry out analysis and independent appraisal of the mitigation control and assurance activities.

#### **C. Accountabilities**

Actively managing risks are the key duty of the risk owners/department managers of the Company. Department managers will assist risk owners in measuring, controlling, monitoring and reporting risks and they have both the right and obligation to contribute to risk management.

#### **D. Reporting**

All critical risks identified and any new/emerging risks to be identified by any individual department will be registered and reported to Group Risk Management Committee (“GRMC”). The risk management team of the Company (the “Risk Management Team”) can facilitate and assist the relevant staff/department to register the risks and consolidate all the risks registered based on the pre-defined risk taxonomy and report it to GRMC on a regular basis.

## Corporate Governance Report

**6. RISK GOVERNANCE STRUCTURE**

The effectiveness of risk management is unavoidably linked to management competence, commitment and integrity, all of which forms the basis of sound corporate governance. Corporate governance provides a systematic framework within which each management group can discharge their duties in managing the business.

**A. The Board of Directors**

The Board is responsible for:

- evaluating and determining the risks it is willing to take in achieving the company's strategic objectives;
- overseeing the Company's risk management and internal control systems on an ongoing basis;
- reviewing the effectiveness of the risk management and internal control systems which need to be conducted at least annually; and
- reporting to shareholders that it has done so in its Corporate Governance Report

**B. Audit Committee**

The audit committee of the Company (the "Audit Committee") is responsible for:

- reviewing the Company's financial controls, risk management and internal control systems;
- discussing the risk management and internal control systems with GRMC to ensure that GRMC has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the issuer's accounting and financial reporting function;
- considering major investigation findings on risk management and internal control matters as delegated by the Board; and
- ensuring co-ordination between the internal and external auditors

**C. Group Risk Management Committee ("GRMC") is responsible for:**

- assisting the Audit Committee to identify and evaluate risks with which the Company is facing;
- designing, implementing and monitoring the risk management and internal control systems;
- reviewing the identified risks on a regular basis and taking actions to alleviate the level of the identified risks; and
- assessing the effectiveness of the risk management and internal control systems on a quarterly basis and reporting it to the Audit Committee and the Board

## Corporate Governance Report

### **D. Risk Management Team**

Risk Management Team is responsible for:

- updating the risk management policy and formalizing it by having it approved by the Audit Committee and the Board;
- updating the inside information handling policy and formalizing it by having it approved by the Audit Committee and the Board;
- implementing the risk management and internal control systems and processes and providing a risk management and internal control system training to all employees on a regular basis;
- ensuring all office employees attend the training at least once a year;
- facilitating the registration of all identified risks and new/emerging risks to be identified by any employee and reporting it to GRMC; and
- preparing and facilitating GRMC meeting on a monthly basis for the seamless flow and maximum outcome of the meeting

### **E. Internal Audit**

Internal Audit Team of the Company (the "Internal Audit Team") is responsible for:

- carrying out the internal audit function of the Company;
- updating the internal audit policy when it is needed;
- conducting the analysis and independent appraisal of the adequacy and effectiveness of the workflow and work manual of the members of the Company;
- pointing out noncompliance works of the member of the Company being audited and instructing them to make remedy actions within the set timeframe; and
- reporting to GRMC critical findings of the audit and the effectiveness of internal control measures.

## Corporate Governance Report

**F. Senior Management**

Senior management of the Company is responsible for:

- providing direction and guidance within their areas of accountability so that subordinates best utilize their abilities in the preservation of the Company's resources;
- promoting, sponsoring and coordinating the development of a risk management culture within the organization;
- guiding the inclusion of risk management in all strategic and operational decision making; and
- possessing a clear profile of major risks within their area of control incorporating both opportunities and negative risks

**G. Line Management**

Line Management of the Company is responsible for the adoption of risk management practices and will be directly responsible for the results of risk management activities, relevant to their area of responsibility. As part of the annual planning cycle all responsible managers will be required to consider and document existing risks and their impact on proposed plans. Any new emerging risks identified due to changes in the business environment must also be documented. Risk records must be maintained up-to-date on an on-going basis to reflect any changes which may occur.

**H. All Employees**

All employees of the Company are responsible for:

- acting at all times in a manner which does not place at risk the health and safety of themselves or any other person in the workplace;
- providing direction and training to persons for whom they have a supervisory responsibility or duty of care relating to health and safety; and
- identifying areas where risk management practices should be adopted and are to advise their supervisors accordingly

## Corporate Governance Report

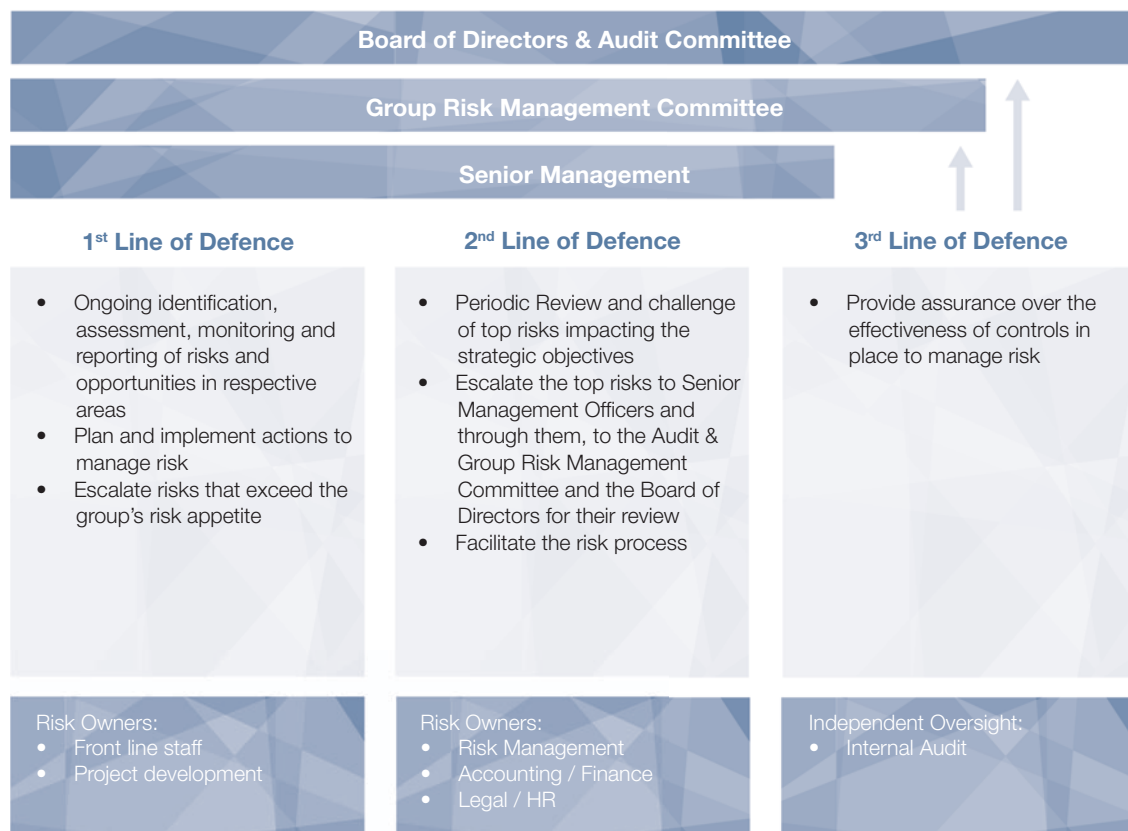
### 7. RISK MANAGEMENT FRAMEWORK

There are a number of different types of risks, which the Company must take and manage in order to achieve its strategic objectives. The Board and senior management must identify these risks and discuss about the mitigating factors to manage the overall risk level and find ways to monitor the risks ensuring they stay within the Company’s risk appetite.

In order to be more systematic to manage these risks, the following risk management framework has been adopted:

#### A. Three Lines of Defense Model

Risks are inherent in every corner of our businesses, and it is important to have a culture involving all levels of employee and a systematic approach to identify and assess risks such that they can be reduced, eliminated or avoided. In order to create risk conscious culture within the organization and manage risks systematically, three lines of defense model has been adopted. The following illustration and table show the definition of each line of defense and its role:





## Corporate Governance Report

**B. Risk Rating Methodology**

In order to measure our risk appetite, all the identified principal risks will need to be rated based on the significance of the risk and the likelihood of occurrence.

**[Table 1] Significance of the Risk**

<b>Risk Rating Dimension</b>	<b>Insignificant<sup>(1)</sup></b>	<b>Minor<sup>(2)</sup></b>	<b>Moderate<sup>(3)</sup></b>	<b>Major<sup>(4)</sup></b>	<b>Critical<sup>(5)</sup></b>
Financial	Financial damage of event less than HKD1 million	Financial damage of event between HKD1 million and HKD5 million	Financial damage of event between HKD5 million and HKD10 million	Financial damage of event between HKD10 million and HKD15 million	Financial damage of event more than HKD15 million
Reputational	Internal corrective action without any negative media focus	No negative media focus and/or concerns raised by one stakeholder	Short-term (less than a week) negative media focus and/or significant concerns raised by more than one stakeholders	Long-term (more than a week) negative media focus and/or sustained concerns raised by more than one stakeholders	Stakeholders lose confidence in the organization in the long-term, permanent withdrawal of support by several stakeholders
Operational	Corrective action within a day without disruption of operation	Corrective action within a week without disruption of operation	An incidence with the potential to lead to disruption of operation for a day	An incidence with the potential to lead to disruption of operation for more than a week	An incidence with the potential to lead to disruption of operation for more than a month
Regulatory	Internal corrective action without any operational disruption	Guidance from the authority	Warnings from the authority	Monetary penalty	Civil / criminal liabilities

## Corporate Governance Report

**[Table 2] Likelihood of Occurrence**

Rating	Description
Highly Likely	Highly likely to occur in all circumstances (weekly)
Likely	Likely to occur in most circumstances (monthly)
Possible	Possible to occur at some stage (quarterly)
Unlikely	Unlikely to occur in most circumstances (1–3 years)
Rare	May only occur in exceptional circumstances (3–10 years)

Every identified risk will be mapped out based on the result of risk ratings using the above risk parameters. The significance of the risk will be evaluated in four different areas such as financial risk, reputational risk, operational risk and regulatory risk and the rating of the most relevant risk area will be selected, which will represent the significance of the risk. And after measuring the likelihood of occurrence, the risk can be positioned in the following risk map.

**[Picture 1] Risk Map**

		Significance				
		Insignificant	Minor	Moderate	Major	Critical
Likelihood	Highly Likely					
	Likely					
	Possible					
	Unlikely					
	Rare					

Any risk located outside of the red area can be defined as the risk within our risk appetite. And any risk located in the red area will be continuously monitored and the Company will make every effort to bring it down to the risk appetite area.

## Corporate Governance Report

### 8. RISK MANAGEMENT TRAINING

The Risk Management Team is responsible for the development and provision of risk management awareness training as well as specific training programs throughout the Company. This training is to address the needs of all employees including senior management.

### 9. RISK MANAGEMENT PERIODIC REVIEW

The Risk Management Team will support the management through periodic independent review of risk management practices and procedures to provide assurance on their efficiency and relevance to the GRMC and Audit Committee.

## INTERNAL AUDIT

Internal audit is an integral part of internal control along with risk management system. The mission of the Internal Audit Team is to provide independent and objective reviews and assessments of the business activities, operations, financial systems and internal accounting controls of the Company. The Internal Audit Team accomplishes its mission through the conduct of operational, financial and performance audits, selected as the result of a risk identification and assessment process. The resulting schedule of audits is reviewed and approved by the Audit Committee and the GRMC of the Company.

### 1. OBJECTIVE

The Internal Audit Team conducts independent reviews and appraisals of the work procedures and operations. These reviews provide management with an independent appraisal of the various operations and systems of control. The reviews also help to ensure that the Company's resources are used efficiently and effectively while helping the Company achieve its mission, as directed by the Board. It is the intention of the Internal Audit Team to perform this service with professional care and with minimal disruption to daily operations.

### 2. RESPONSIBILITY AND AUTHORITY

The internal audit function was established at the direction of the Board and derives its authority directly from the Audit Committee. The Internal Audit Team reports to the GRMC on a monthly basis and to the Audit Committee on a quarterly basis. Internal audit staff is authorized to conduct a comprehensive internal audit program within the Company and is responsible for keeping the Audit Committee and GRMC informed of unusual transactions or other matters of significance.

### 3. INDEPENDENCE

In order to maintain independence and objectivity, the internal audit function has no direct responsibility or any authority over the activities or operations that are subject to review, nor should the Internal Audit Team develop or install procedures, prepare records or engage in activities that would normally be subject to review. However, the Internal Audit Team may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.

## Corporate Governance Report

### 4. OBJECTIVITY

Internal audit is a service function organized and operated primarily for the purpose of conducting audits, in accordance with the predefined work procedures. The evidential matter gathered from these audits forms the basis for furnishing opinions and other relevant information to chairman of the Board, Audit Committee, GRMC and senior management of the Company.

Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures and/or their effectiveness and efficiency in achieving organizational objectives. The Internal Audit Team may also recommend cost effective courses of action for the management to consider in improving efficiencies that have been identified during an audit.

### 5. AUDIT PROCESS

Although every audit project is unique, the audit process is similar for most engagements and usually consists of nine stages. Through these stages the Internal Audit Team will determine ways to minimize risks and increase efficiencies within the area.

#### A. *Plan:*

The Internal Audit Team will develop an audit plan based on a review of all pertinent information.

#### B. *Notify:*

The Internal Audit Team will schedule a meeting with the unit manager and the senior managers of the process to be audited. Identify the scope and objectives of the audit, how long it is expected to last and what the responsibilities for all parties are in the audit process. Any factors that may impact the audit should be raised at this time. Factors include vacations, fiscal year end reporting requirements, etc.

#### C. *Test:*

Testing will include interviews with the staff, review of procedures and risk manuals, assessing the adequacy of internal controls.

#### D. *Communicate:*

Keep the department that is undergoing the audit updated on the status of the audit on a regular basis especially if there are any findings. There may be instances where the findings can be addressed immediately.

#### E. *Draft:*

The report draft will include the audit Scope and objectives, summary and opinion, findings and audit recommendations.

## Corporate Governance Report

**F. Management Response:**

Management will receive the audit draft to confirm the facts and respond to the audit recommendations. Their response should assign the responsibility and have a specific target date of completion for the corrective actions. The time window for the management response will be 21 calendar days.

**G. Review:**

The final version of the audit will be reviewed and all issues resolved by the Internal Audit Team.

**H. Distribute:**

The report is then released to the Audit Committee and GRMC as part of the agenda at the periodic meetings as requested.

**I. Verify:**

The Internal Audit Team will normally conduct a follow up on the management responses to the audit Findings and Recommendations within a reasonable time frame. This subsequent review will be discussed with the involved management and the comments published. The comments may also be released to the Audit Committee and GRMC as part of the agenda at the periodic meetings.

**6. PRIORITIZATION OF THE AUDIT**

The below are three factors adopted for the prioritization of processes for auditing:

- A. **Financial Factor:** The significance of a process will be evaluated based on the amount of monetary impact of the process.
- B. **Operational Factor:** The criticality of the process, when it has ERRORS or IRREGULARITIES, will be determined by time to be required for the corrective action.
- C. **Regulatory Factor:** The rating of this category will be determined by the level of action from the authority.

## Corporate Governance Report

And the risk parameters of each category are illustrated in the following [Table]:

<b>Risk Rating Dimension</b>	<b>Insignificant (Ratings 1)</b>	<b>Moderate (Ratings 2)</b>	<b>Critical (Ratings 3)</b>
Financial	Financial damage of event less than HK\$500,000	Financial damage of event between HK\$500,000 and HK\$1,000,000	Financial damage of event more than HK\$1,000,000
Operational	Corrective action within a week without disruption of operation	An incidence with the potential to lead to disruption of operation for more than a week	An incidence with the potential to lead to disruption of operation for more than a month
Regulatory	Internal corrective action without any warning from the authority	Warnings from the authority and/or monetary penalties	Monetary penalties and/or Civil/criminal liabilities

The prioritization of the process for auditing will be determined by the rating of the most relevant factors indicated above.

### INTERNAL CONTROL FOR THE HANDLING INSIDE INFORMATION

The Board and the management of the Company are well aware of the following statutory duties relating to the handling of inside information:

- The Company must have procedures for the secure handling of inside information;
- A list of persons who are given access to inside information must be kept and the list must be continuously updated;
- Persons who are given access to inside information shall be made aware of the duties and responsibilities that this entails, as well as the criminal liability involved; and
- The Company must be able to provide documentary evidence to the Securities and Futures Commission in Hong Kong that persons who are given access to inside information are aware of their duties.

#### 1. APPLICABILITY

These inside information handling procedures apply to all employees and elected officers (directors, elected auditor and corporate secretary) of the Company and its subsidiaries and to joint ventures in which the Group is a partner. The persons in charge of business areas in the Company shall ensure that employees and elected officers of the Company's subsidiaries receive necessary information about and training in use of these instructions. Responsibility at the Company lies with the heads of the various departments. The individual department heads shall assist in providing practical training.

## Corporate Governance Report

**2. THE DUTIES AND RESPONSIBILITIES OF A PERSON WITH RECEIPT OF INSIDE INFORMATION**

Each employee and elected officer who receives inside information regarding the Group's financial instruments shall act in accordance with the prohibitions and duties that are described in further detail below.

**A. Prohibition of misuse of inside information**

No person must subscribe for, purchase, sell or exchange financial instruments issued by the Company if he or she has inside information regarding the Group's financial instruments. This prohibition applies to every natural and legal person, indirect and direct trading, and trading both for own account and for a third party's account, irrespective of form of settlement. The prohibition also applies to incitement to trade, i.e. persons who have inside information regarding the Group's financial instruments are not permitted to give other persons advice or in any way influence other persons to carry out, or refrain from carrying out, such transactions. This applies correspondingly to the entry into, purchase, sale or exchange of options or forward/futures contracts or similar rights (including financial derivatives) related to such financial instruments or to incitement to carry out such transactions.

The prohibition applies only to trades that can be characterized as misuse of inside information. Whether or not the trade constitutes misuse must be assessed in each individual case.

**B. Duty of confidentiality**

Inside information is confidential information, and shall not be given to or in other ways made available to unauthorized persons. The information may only be communicated or made available to another person if the recipient has a relevant, well-founded need for the information, assessed on the basis of the Company's interests. A strict "need to know" principle applies, i.e. as few people as possible shall have access to the information, as late as is practically possible.

Any person who communicates inside information or makes such information available to another person has an independent responsibility for ensuring that the person who is given access to the information is simultaneously made aware of the duties and responsibilities entailed by the receipt of such information, including the duty of confidentiality, the duty of proper handling of the information, the duty not to misuse it, and the criminal liability that attaches to the misuse or unwarranted distribution of such information. The above applies regardless of whether the recipient is an employee, an elected officer or an external advisor or a business connection.

## Corporate Governance Report

### **C. *Duty of information in connection with the communication of inside information***

If inside information is communicated or made available to another person, the person responsible for maintaining the insider list and/or the Investor Relations Department shall be notified immediately, and if possible, before the information is communicated. Compliance with this duty of information is essential if the Company is to be able to fulfil its statutory duty to maintain an insider list, and to ensure that the persons who are given access to inside information are aware of the responsibility that this entails.

The person responsible for maintaining the insider list shall immediately put the person in question on the list of persons who have access to inside information. The insider list maintainer shall at the latest at the same time make sure that the recipient has been made aware of the duties and responsibilities that such access entails, and the criminal liability that attaches to misuse or unlawful use of such information.

### **D. *Duty to ensure proper handling of inside information and to secure information***

Any person who has inside information has a duty, in handling such information, to exercise due care in order to ensure that inside information does not come into the possession of unauthorized persons or is misused.



# Environmental, Social and Governance Report

## 1. INTRODUCTION

### 1.A. PREPARATION

The section was prepared with reference to the Environmental, Social and Governance (“ESG”) Reporting Guide (the “ESG Guide”) set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and other relevant rules and regulations such as Labor Law of the People’s Republic of China (the “PRC”), China Occupational health and Safety Regulations, China Environmental Protection Act., etc.

Cowell e Holdings Inc. (herein after the “Company” and together with its subsidiaries, the “Group”), is committed to the highest standards of environmental and social responsibility and ethical behavior, which has been embedded into the Group’s main operational principles. The Group’s commitment in ESG areas has been well recognized by its customers including the main US customer.

As an ideal proxy for 2016 ESG practices of the Group’s camera module manufacturing operation, the camera module factory of Cowell China Optic Electronics Limited (“Cowell China”) in Huanan (“HN Factory”), a fully owned subsidiary of the Company’s Hong Kong subsidiary, was selected considering its great contribution to the Group’s overall business. But in order to demonstrate the Group’s wider scope of ESG practices, the Company decided to include other factory in Heng Keng (“HK Factory”) as well in this ESG section of 2017 annual report. As a result, 2017 ESG report covers extensive ESG practices of the entire manufacturing base of the Group.

In order to pursue and assess its compliance with these principles internally, the Company has formed Environmental, Social Responsibility & Governance Working Group (“ESG Working Group”) under Group Risk Management Committee (“GRMC”) of the Company which directly reports to the audit committee (the “Audit Committee” of the Company). The member of ESG Working Group includes individuals who are directly responsible for each ESG areas. The main duties of ESG Working Group are as follows:

- A. To set up and maintain policies for environmental and social responsibility;
- B. To comply with the relevant laws and regulations that have a significant impact on the Company;
- C. To identify potential issues relating to environmental and social responsibility;
- D. To prioritize the identified issues to be managed;
- E. To develop ways to monitor the identified issues and keep tracking Key Performance Indicators (“KPI”) of the issues;
- F. To make recommendations on the ESG strategies to GRMC;
- G. To implement the ESG strategies adopted by GRMC; and
- H. To make monthly ESG report to GRMC

The regular ESG Working Group meeting is held on a monthly basis and the identified issues are discussed and proper action plans are set up to follow up. In addition, in accordance with the latest requirements under the ESG Guide, ESG Working Group provides guidance and training on all aspects of policies and strategies in respect of the Company’s environmental, social and governance management as well as their relevance to the Company’s operations.

## Environmental, Social and Governance Report

**1.B. MATERIALITY AND RELEVANCE**

In order to identify most relevant General Disclosures and key performance indicators (“KPI”), all the areas of concern specified in the ESG Guide were discussed in the ESG Working Group meetings and cross-checked with GRMC. The outcome of the discussion was laid out and further examined from the perspective of major US customer’s ESG guideline and priorities as well as feedback from the external stakeholders. The detailed methods of engagement are as follows:

**[TABLE 1] METHOD OF ENGAGEMENT**

Stakeholders Engaged	Method of Engagement
ESG Working Group	<ul style="list-style-type: none"> <li>• Areas of expertise</li> <li>• Meetings</li> <li>• Ratings</li> <li>• Cross checking with GRMC</li> </ul>
Group Risk Management Committee	<ul style="list-style-type: none"> <li>• Areas of experience</li> <li>• Meetings</li> <li>• Ratings</li> <li>• Ongoing engagement</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Areas of focus</li> <li>• Global ESG guideline and standards</li> <li>• Priorities of concerns</li> </ul>
External Stakeholders	<ul style="list-style-type: none"> <li>• Areas of interest</li> <li>• Investor meetings and conference calls</li> <li>• Overseas roadshows</li> <li>• Investor forums and conferences</li> </ul>

Based on the outcome of the ESG Working Group meetings, feedback from GRMC and external stakeholders as well as major customers’ ESG guideline and priorities, the areas to be discussed were rated. The results of rating on each discussion point represents the Company’s core organizational values, policies and strategies. During the rating process, both internal and external stakeholders’ opinions were evaluated in consideration of potential financial implications, reputational risk and sustainability of the business.

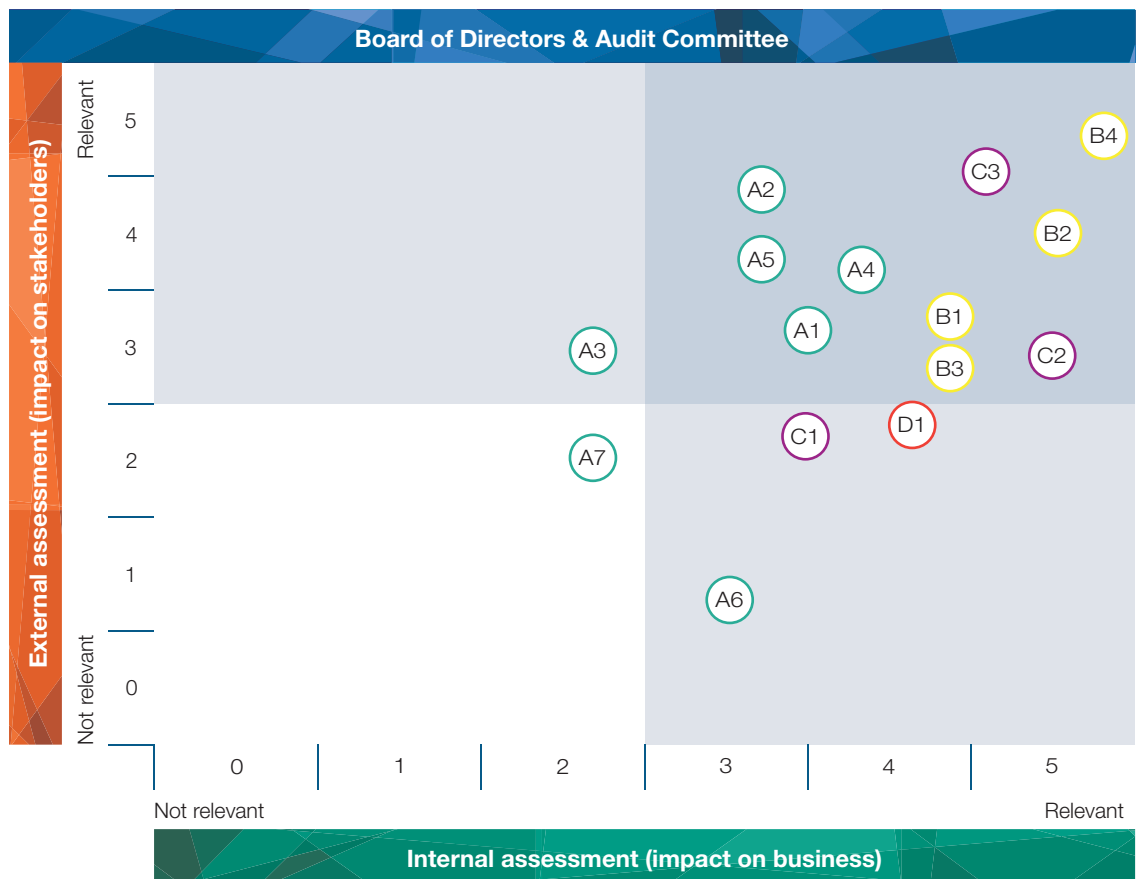
The discussion points recommended by the ESG Guideline were summarized in the following table using four different categories:

Environmental, Social and Governance Report

**[TABLE 2] ESG Discussion Points**

A. Environment	B. Workplace	C. Operating Practice	D. Community
A1: Greenhouse Gas A2: Hazardous Waste A3: Non-hazardous Waste A4: Energy A5: Water A6: Packaging Material A7: Natural Resources	B1: Employment B2: Health & Safety B3: Development & Training B4: Labour Standards	C1: Supply Chain Management C2: Product Responsibility C3: Anti-corruption	D1: Community Investment

Each discussion point was rated in a scale from 0 to 5 (where 0 is the lowest relevance and 5 is highest) and mapped out in the following matrix:



Based on the above matrix, 14 out of 15 topics were identified as strong relevance and materiality to Cowell China. Natural Resources' low rating was mainly due to the Company's insignificant usage of natural resources in line with its nature of the business.

## Environmental, Social and Governance Report

### 2. ENVIRONMENTAL

Cowell China undertakes environmental protection seriously since it believes that protecting environment effort critically relates to the sustainability of its operation. Cowell China has initiated and implemented a number of measures to reduce carbon emission and solid wastes, improve energy efficiency and conserve water resources. Thanks to its effort in complying with the environment laws and regulations in force in China and its well defined internal policies and procedures, Cowell China has been successfully re-accredited the certification of ISO 14001: 2004 Environmental Management System. During the certification process, Cowell China has sufficiently demonstrated the followings:

- Compliance of mandatory requirements of the environmental standards; and
- Effectiveness of Cowell China's environmental management system



In the fiscal year of 2017, Cowell China was not aware of any material non-compliance with the relevant environmental laws and regulations that would have a significant impact on the Company.

#### 2.A. EMISSIONS

Cowell China has effectively managed emissions of relevant greenhouse gases, waste water and hazardous and non-hazardous wastes. Main types of emissions discharged by Cowell China are as follows:

- Greenhouse gases
- Waste water
- Hazardous waste: Waste lubricant from power generators (HW08), Epoxy (HW13), Fluorescent lamp (HW29), Solvent (HW42) and cleaning cloth (HW49)
- Non-hazardous waste: Food waste, household garbage, plastic packaging materials and boxes

## Environmental, Social and Governance Report

The above hazardous waste are categorized based on Corrosivity (C), Toxicity (T), Ignitability (I) and Infectivity (In) in reference to national catalogue of Hazardous Wastes formulated in accordance with the Environment Protection Law of the People's Republic of China ("PRC") and the Law of the PRC for the Prevention and Control of Pollution by solid wastes.

### Greenhouse Gases

The main sources of the emitted gases can fall into two different categories: direct emission and indirect emission. The direct emission arises from three different sources: 1) owned and controlled vehicles being operated for Cowell China employees' daily commute; 2) consumption of liquefied natural gas ("LNG") for the humidity control facilities in the clean rooms of the production site and cooking facilities in the canteens of Cowell China; and 3) consumption of diesel for the power generators which is contingent facilities for a failure of electrical power supply. The greenhouse gas emission from the power generators is minimal since the facilities are only utilized when there is any electrical power blackout. Normally these facilities are running only 10 minutes per week for a testing purpose. Also the greenhouse gas emission from LNG boiler for humidity control and cooking is insignificant since LNG is environmentally friendly.

The indirect emission results from consumption of electricity for the production facilities as well as air-conditioning and heating facilities. Total greenhouse gas emission is measured regularly by converting total consumption of electricity, LNG, diesel and car fuel into greenhouse gas using conversion factors from 2015 China Regional Power Grid Baseline Emission Factor for electricity and GB-T2589-2008 General Rules for other energy consumption. Based on this methodology, Cowell China's total greenhouse gas estimated in the fiscal year of 2016 and 2017 are shown below:

**[TABLE 3] GREENHOUSE GAS EMISSION**

ITEM	UNIT	CONSUMPTION		CONVERSION FACTOR	GREENHOUSE GAS (tCO <sub>2</sub> )	
		2016	2017		2016	2017
Electricity	kwh	68,898,790	70,437,320	0.8959	61,726	63,105
LNG	m <sup>3</sup>	516,741	444,878	0.0022	1,137	979
Car Fuel	Liter	134,933	98,385	2.9200	305	223
Diesel	Liter	65,070	48,289	3.1000	172	128
<b>TOTAL EMISSION</b>					<b>63,341</b>	<b>64,434</b>

\* Conversion Factor for Electricity in reference to 2015 China Regional Power Grid Baseline Emission Factor (2015 中國區域電網基準線排放因子)

\*\* Conversion Factor for LNG/Car Fuel/Diesel in reference to GB-T2589-2008 general rules for calculating energy consumption (GB-T2589-2008 綜合能耗計算通則)

## Environmental, Social and Governance Report

**Air Emission**

In order to comply with the law of the prevention and control of atmospheric pollution in China, air emission inspection has been conducted by the local authority annually. During the inspection, NO<sub>x</sub>, SO<sub>2</sub> and dust level of the emission from LNG boilers and power generators have been measured and recorded. As shown in the below tables, all inspected items have remained below the tolerance level of the authority.

**[TABLE 4] AIR EMISSION INSPECTION FOR LNG BOILER**

ENTITY	ITEM	UNIT	TOLERANCE	RESULT		STATUS
				2016	2017	
HN FACTORY	No <sub>x</sub>	mg/m <sup>3</sup>	200	25	140	PASS
	SO <sub>2</sub>	mg/m <sup>3</sup>	50	15	44	PASS
	DUST	mg/m <sup>3</sup>	30	10	21	PASS
HK FACTORY (No LNG Boiler)	No <sub>x</sub>	mg/m <sup>3</sup>	200	0	0	N.A.*
	SO <sub>2</sub>	mg/m <sup>3</sup>	50	0	0	N.A.
	DUST	mg/m <sup>3</sup>	30	0	0	N.A.

\* N.A.: Not Applicable

**[TABLE 5] AIR EMISSION INSPECTION FOR POWER GENERATOR**

ENTITY	ITEM	UNIT	TOLERANCE	RESULT		STATUS
				2016	2017	
HN FACTORY	No <sub>x</sub>	mg/m <sup>3</sup>	120	22	13	PASS
	SO <sub>2</sub>	mg/m <sup>3</sup>	500	37	37	PASS
	DUST	mg/m <sup>3</sup>	120	15	14	PASS
HK FACTORY	No <sub>x</sub>	mg/m <sup>3</sup>	120	88	21	PASS
	SO <sub>2</sub>	mg/m <sup>3</sup>	500	112	26	PASS
	DUST	mg/m <sup>3</sup>	120	12	12	PASS

## Environmental, Social and Governance Report

**Waste Water**

In respect of waste water treatment, Cowell China has strictly complied with the related national laws and regulations of The Ministry of Environmental Protection of the PRC (MEP). The discharged water from HN Factory and HK Factory have been annually inspected by the local authority. And due to different classifications of waste water from HN and HK factories, two different MEP standards have been applied for the assessment. For both factories, non-compliance case has never been reported previously.

The following table shows the results of inspections conducted in 2016 and 2017:

**[TABLE 6] INSPECTION OF DISCHARGED WATER**

ENTITY	ITEM	UNIT	MEP STANDARD <sup>(1)</sup>	INSPECTION RESULT		STATUS
				2016	2017	
HN FACTORY	PH <sup>(3)</sup>		6.00 – 9.00	7.43	7.40	PASS
	COD <sup>(4)</sup>	mg/L	30.00	18.00	25.00	PASS
	BOD <sup>(5)</sup>	mg/L	6.00	3.60	5.80	PASS
	T-N <sup>(6)</sup>	mg/L	1.50	0.86	0.11	PASS
	PETROLEUM	mg/L	0.50	0.04	0.04	PASS
ENTITY	ITEM	UNIT	MEP STANDARD <sup>(2)</sup>	INSPECTION RESULT		STATUS
HK FACTORY	PH		6.00 – 9.00	7.15	7.05	PASS
	FLOTAGE	mg/L	60.00	10.00	4.00	PASS
	CHROMACITY		40.00	2.00	2.00	PASS
	PHOSPHATE	mg/L	0.50	0.04	0.05	PASS
	COD	mg/L	90.00	21.00	14.00	PASS
	BOD	mg/L	20.00	6.10	3.10	PASS
	T-N	mg/L	10.00	0.08	0.03	PASS
	PETROLEUM	mg/L	5.00	0.10	0.04	PASS

(1) Environmental Quality Standards for Surface Water GB38382002 Class 3 (地表水環境質量標準GB38382002 3類)

(2) Water Pollutant Emission Limit Standard DB44/26 Class 2001 (水污染物排放限制 DB44/26 2001 第二時段1級標準水)

(3) PH: Potential of Hydrogen

(4) COD: Chemical Oxygen Demand

(5) BOD: Biochemical Oxygen Demand

(6) T-N: Total Nitrogen

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And the below table shows the amount of discharged water in the fiscal year of 2016 and 2017, which are all within the limits approved by the local authority:

**[TABLE 7] DISCHARGED WATER**

ENTITY	2016	2017
HN FACTORY	312 m <sup>3</sup>	524 m <sup>3</sup>
HK FACTORY	19,729 m <sup>3</sup>	19,460 m <sup>3</sup>

**Hazardous & Non-Hazardous Waste**

Cowell China's hazardous and non-hazardous wastes are listed in the below table, which also shows total emitted amount of each item in the fiscal year of 2016 and 2017:

**[TABLE 8] HAZARDOUS & NON-HAZARDOUS WASTES**

ITEM	UNIT	HN FACTORY		HK FACTORY		SOURCE OF WASTES
		2016	2017	2016	2017	
<b>HAZARDOUS WASTES</b>						
Lubricant	kg	2,000	1,950	*	*	Power generating
Chemical	kg	2,050	2,714	500	1,235	Cleaning (alcohol, acetone & solvent)
Fluorescent Lamps	kg	250	326	250	631	Lighting
Epoxy	kg	1,488	1,500	*	*	Production processing
Cleaning Cloth	kg	2,650	4,195	*	*	Cleaning (with chemicals)
<b>NON-HAZARDOUS WASTES</b>						
Paper, Boxes, etc.	tonne	110	113	n.a.	32	Packaging
Household & Food	tonne	650	707	n.a.	699	Canteens and Dormitory

\* HN Factory handles lubricant, epoxy and cleaning cloth wastes from HK Factory collectively



Environmental, Social and Governance Report

In addition, the following table illustrates how each of the emitted hazardous and non-hazardous wastes are handled:

**[TABLE 9] HAZARDOUS AND NON-HAZARDOUS WASTE TREATMENT**

NO	TYPE	COWELL CHINA		WASTE TREATMENT COMPANIES		
		USAGE	TREATMENT	COLLECTION	TREATMENT	END PROCESS
1	NON-HAZARDOUS WASTE	HOUSEHOLD GARBAGE & PACKAGING WASTE (BOX & PLASTIC PACKAGING MATERIALS)	GENERAL WASTE STORAGE AREA	URBAN HOUSEHOLD GARBAGE PROCESSING CENTER	FILTERING & SORTING (RECYCLE & NON-RECYCLE WASTE)	* RECYCLABLE WASTE- RECYCLE * NON-RECYCLABLE WASTE – INCINERATION AND LANDFILL
2	FOOD WASTE	FOOD WASTE FROM CANTEEN	WASTE FOOD STORAGE	PIG FARM	FILTERING & SORTING	FEED FOR PIG FARMING
3	HAZARDOUS WASTE	ALCOHOL, ACETONE & SOLVENT (HW42) FOR CLEANING	COLLECTING WASTE CHEMICALS IN 5 LITER CONTAINER EVERY 6 MONTHS & STORE IN THE DESIGNATED HAZARDOUS WASTE AREA	EVERY 2 MONTHS BY PROFESSIONAL HAZARDOUS WASTE TREATMENT COMPANY	TREATMENT FOR RECYCLING	RESALE
4	FOOD WASTE	WASTE LUBRICANT FROM POWER GENERATORS (HW08)	COLLECTING WASTE LUBRICANT IN 20 LITER CONTAINER EVERY 6 MONTHS & STORE IN THE DESIGNATED HAZARDOUS WASTE AREA	EVERY 6 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY	TREATMENT FOR RECYCLING	RESALE
5	HAZARDOUS WASTE	WASTE EPOXY (HW13) FROM PRODUCTION	DESIGNATED HAZARDOUS WASTE STORAGE AREA	EVERY 2 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY	FILTERING	INCINERATION
6	HAZARDOUS WASTE	WASTE CLOTH AFTER CLEANING USING CHEMICALS	DESIGNATED HAZARDOUS WASTE STORAGE AREA	EVERY 2 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY	FILTERING	INCINERATION

The majority of wastes including both hazardous and non-hazardous wastes are being filtered, sorted and processed for recycling as much as possible and the final residual wastes are incinerated by the authorized waste treatment companies. These treatments are fully in compliance with ‘Solid Waste Pollution Prevention Act 75 Article 5’ (固體廢物污染環境防治法75條5行) and non-compliance case has never been reported previously.

**Packaging material consumption**

The main packaging materials consumed by Cowell China during the fiscal year of 2017 include trays and carton boxes. These are in line with main customers’ standard packaging requirements. The total weight of trays and carton boxes used for the shipments of camera modules in the fiscal year of 2017 were approximately 296.6 tonnes and 109.8 tonnes, respectively, as compared to 340.2 tonnes and 105.3 tonnes, respectively, in 2016. Each carton box takes up to 60 trays.

**2.B. ENERGY AND WATER USAGE**

Electricity is the main source of energy required for Cowell China’s manufacturing processes, heating and cooling. And water is mainly used for the followings:

- 1) Ultrasonic cleaning processes for components;
- 2) Cooling compressors;
- 3) Greening;
- 4) Sprinkling for dust control; and
- 5) Other usage (general cleaning, drinking and washing etc.)

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LNG is required to control humidity in the clean rooms of the production site and used for preparing meals for the employees of Cowell China. During the fiscal year of 2016 and 2017, total consumption of energy and water are provided in the following table:

**[TABLE 10] ENERGY & WATER CONSUMPTION**

ITEM	UNIT	HN FACTORY		HK FACTORY		TOTAL	
		2016	2017	2016	2017	2016	2017
Electricity	kwh	45,746,400	47,460,600	23,152,390	22,976,720	68,898,790	70,437,320
LNG	m <sup>3</sup>	452,830	388,683	63,911	56,195	516,741	444,878
Water	m <sup>3</sup>	313,453	348,116	412,580	328,066	726,033	676,182

Proper usage of energy and water with care relates to not only environmental protection, but also health and safety of employees of Cowell China. For effective and efficient consumption of energy and water, Cowell China has prepared and implemented internal policies listed below:

- LNG user manual and policy
- Water user manual and policy
- Electricity safety user manual and policy
- Uninterrupted Power Supply (“UPS”) policy
- Power generator user manual and policy
- Lighting and illumination policy

Cowell China does not have any issue in sourcing water; however, the management has advocated water saving and efficiency initiatives. As a good practice and internal guideline, 50% of HN Factory’s total discharging water has been recycled since April 2017. For the nine months in 2017, 197m<sup>3</sup> dischargeable water has been reused.

In addition, Cowell China has constantly explored to find ways to optimize the energy consumption and waste management. To achieve this mission, the Company has formed a task force team (“TFT”) within the organization. TFT has carried out various projects and many of them have already been materialized. The project details and outcome of the projects are in the following table:

**[TABLE 11] 2017 ENERGY SAVING INITIATIVES**

PROJECT DESCRIPTION	OBJECTIVES	OUTCOME
1. Replaced fluorescent light lamps with LED lamps	<ul style="list-style-type: none"> <li>— Saving electricity</li> <li>— Reducing hazardous wastes</li> </ul>	<ul style="list-style-type: none"> <li>— 791,274kw electricity savings</li> <li>— About 850kg hazardous waste reduction per year</li> </ul>
2. Optimized shuttle schedule for employees’ commute	<ul style="list-style-type: none"> <li>— Saving car fuel</li> <li>— Reducing greenhouse gas</li> </ul>	<ul style="list-style-type: none"> <li>— 26.4% car fuel &amp; diesel reduction</li> <li>— 126 tCO<sub>2</sub> Greenhouse gas reduction</li> </ul>

## Environmental, Social and Governance Report

### 3. SOCIAL RESPONSIBILITY

#### 3.A. EMPLOYMENT

All employees of Cowell China totaling 4,215 as of December 31, 2017 are full time employees and well diversified in terms of geographical region, age group and gender. The detailed breakdown of our employee by region, age group and gender as well as turnover rate is as follows:

**[TABLE 12] TURNOVER RATE BY REGION, AGE GROUP & GENDER**

	Region	# of Employees at FYE'17	%	# of Employees Resigned in 2017	Turnover Ratio
<b>By Region</b>	Central China	1,737	41.2%	1,482	18.9%
	South China	1,244	29.5%	1,015	12.9%
	Southwest	772	18.3%	776	9.9%
	Northwest	206	4.9%	223	2.8%
	Other regions in China	150	3.6%	84	1.1%
	Korea	106	2.5%	48	0.6%
<b>By Age Group</b>	Below 30	2,808	66.6%	2,890	36.8%
	30s	1,235	29.3%	697	8.9%
	40s	150	3.6%	34	0.4%
	50 & above	22	0.5%	7	0.1%
<b>By Gender</b>	Female	2741	65%	2227	28.4%
	Male	1474	35%	1401	17.9%
<b>TOTAL</b>		<b>4,215</b>	<b>100%</b>	<b>3,628</b>	<b>46.3%</b>

\* Turnover Rate = # of employees resigned in 2017 / (# of employees at FYE'17+# of employees resigned in 2017)

\*\* The turnover is defined as employees who leave Cowell China voluntarily or due to retirement, dismissal or other reasons

The management of Cowell China believes that our employees are one of the most valuable assets to the Company and essential to the Company's operations. In order to make Cowell China friendly and fair working environment, the Company has adopted the following principles as its core human resources ("HR") policy:

#### ***Anti-discrimination in recruitment and promotion***

To comply with Chapter 2 of PRC Labor Law, Cowell China prohibits any discrimination against any employees based on age, disability, ethnicity, gender, marital status, national origin, political affiliation, race, religion, sexual orientation, gender identity, labor union membership, or any other status protected by the national law, in hiring and other employment practices. Furthermore, Cowell China does not require pregnancy or medical examinations unless it is required by applicable laws or prudent for workplace safety. It is also clearly stated in the policy that any grievances in good faith will not be retaliated against or punished. Non-compliance of this case has never been reported previously.

## Environmental, Social and Governance Report

### **Working Hours and Compensation**

Cowell China strives to create and maintain a work-life balanced working environment with reasonable working hours and rest periods. In addition, employees of Cowell China can enjoy reasonable annual leave periods and time off for national holidays. Furthermore, employees of Cowell China receive, at least, the legally required minimum wages and a range of allowances and compensation for working during weekend, overtime, night shift as well as year-end bonuses. The detail pay scheme is clearly communicated to all employees in their local languages and accurate wages are paid in a timely manner.

Cowell China's labor policies are set to adhere to legislation within the boundary of the respective labor laws in China. Non-compliance of this case has never been reported previously.

### **Other Benefits and Welfare**

Cowell China promotes employees' collaborative spirit and nurtures their work-life balance by sponsoring a number of cultural and sporting activities on a regular basis.

The followings are such regular activities that are organized by either the management of Cowell China or employees themselves:

1. Bi-weekly badminton workout
2. Weekly basketball competition
3. Monthly mountain tracking
4. Monthly birthday get-together
5. Annual sports day
6. Dragon boat festival



## Environmental, Social and Governance Report

**3.B. HEALTH AND SAFETY*****Occupational Health, Safety and Hazard Prevention***

The management of Cowell China pays much attention to employees' health, safety and well-being since it is inarguably important to the Company's sustainable operation. The Company is making every effort to provide and maintain a safe working environment and integrate appropriate health and safety management practices into its operation. In any case, if any employee of Cowell China observes unsafe or unhealthy working conditions, a proper internal escalation procedure is in place.

As a part of the internal standard procedures, Environmental, Health & Safety Team ("EHST") and Labor Team perform the following actions:

1. Providing employees with appropriate personal protective equipment with manual and teaching them how to properly use the equipment;
2. Training employees to adhere to Cowell China's health and safety policy; and
3. Conducting fire drills on a semi-annual basis (day & night fire drills) at the production, office and residential areas within Cowell China



Furthermore, Cowell China has formed a group of professional from General Affairs, Labor, Construction, HR and EHST, which conducts and promotes 'Health & Safety Day' for the employees' health and safety awareness on a monthly basis. During 'Health & Safety Day', the team checks its surroundings, assesses emergency evacuation procedures and eliminates potential occupational health and safety hazards.

The method used to measure occupational health and safety is as follows:

- Average Number of Accidents per 1000 workers per year ("Accident Rate") = Number of accidents/ Total number of workers X 1000



## Environmental, Social and Governance Report

In the fiscal year of 2017, an Accident Rate of 0.12 was reported. The occupational health and safety incidents occurred in 2017 were investigated and proper corrective actions were conducted. All these activities have been reported to Group Risk Management Committee.

**[TABLE 13] WORK-RELATED FATALITIES**

	Unit	2017
Total # of Work-related Fatalities	# of People	0
Work-related Fatalities Rate	Per 1,000 Workers	0.00%

**[TABLE 14] WORK INJURIES**

	Unit	2017
Accidents *	# of Accidents	6
Accident Rate	Per 1,000 Workers	0.12
Lost Hours	# of Hours	2,438

\* Work related accidents with a minimum 8 lost hours (a full working day)

### **Emergency Prevention and Readiness**

Potential emergency situations are carefully examined and assessed. And for each different emergency case, proper emergency evacuation procedures were implemented to minimize any physical injury as well as environmental and property damage. All new employees must attend an ‘Emergency Prevention & Evacuation’ training. And for those who work in the dangerous areas, ‘Health & Safety’ training is conducted on a monthly basis to raise their awareness of emergency procedures and readiness.



### **3.C. DEVELOPMENT AND TRAINING**

Recruiting and maintaining skilled employees and cultivating loyalty to the Company are pivotal to both the success of the Company and the employees’ career development. Training will help employees improve their work performance, which will eventually increase their loyalty to the Company. Therefore, Cowell China has developed a series of training specific to the needs and requirements of the work and tailored in line with their roles and responsibilities. Most trainings are done by internal staffs, but if necessary for the effectiveness of the training, outside professionals are often hired to conduct trainings as well.



## Environmental, Social and Governance Report

The following table shows a summary of regular trainings for Cowell China factory employees in the fiscal year of 2017:

**[TABLE 15] REGULAR TRAININGS FOR COWELL CHINA FACTORY EMPLOYEES**

Training Type	Training Subjects	Target Audience	# of		Frequency
			Attendees	Training Hour	
New Employee Orientation	1. Company Introduction; 2. Code of Conduct; 3. Health & Safety; 4. Disciplinary regulations; 5. Corporate Social Responsibility; 6. Safety Gear Manual; 7. Clean Room Rules; 8. Security regulations; 9. Manufacturing Processes; 10. Terminology; 11. Tool Manual.	Newly hired operators	Male: 7,772 Female: 3,661	2 days (8 hours per day)	1st and 2nd day of employment
Post-promotion Training	1. Floor Management; 2. Code of Conduct; 3. Corporate Social Responsibility; 4. Health & Safety; 5. Security regulations; 6. Leadership skill; 7. Interpersonal Skill; 8. Effective Communication; 9. Leader's Role & Team Spirit.	1. Leader 2. Line Manager 3. Processing Manager	Male: 122 Female: 81	8 hours	Semi-annually
General Annual Training	1. Roles & Responsibilities; 2. Code of Conduct; 3. Corporate Social Responsibility; 4. Working Attitude; 5. Chemical Handling Instruction; 6. Security regulations; 7. People Management; 8. Interpersonal Skill; 9. Improving Productivity; 10. Leader's Role & Team Spirit.	1. Line Manager 2. Processing Manager	Male: 422 Female: 328	8 hours	Annually (From November to December)
Team Spirit Building Training	Team Spirit Building Training (Outdoor Activities)	1. Line Manager 2. Processing Manager	Male: 133 Female: 120	8 hours	Annually (From May to June)

## Environmental, Social and Governance Report

### 3.D. LABOR STANDARDS

#### ***Anti-harassment and Abuse***

Cowell China has strived to make friendly workplace without in any form of harassment and abuse including, but not limited to verbal abuse and harassment, psychological harassment, mental and physical coercion, and sexual harassment. To create this working environment, a regular training on an annual basis has been provided to all employees including the newly hired.

#### ***Prevention of Involuntary Labor***

Persons can have an opportunity to work for Cowell China only when they want to work voluntarily. Any form of slave, forced, bonded, indentured, or prison labor will not be recruited based on the internal policy. In any case, Cowell China will not forcibly withhold employee's original government-issued identification and travel documents. The relevant conditions of employment will be clearly explained to all employees in their own language.

#### ***Prevention of Underage Labor***

The minimum legal age applicable to Cowell China's employment is 18 years old. Anyone younger than 18 years old are not allowed to work for the Company. In order to prevent from hiring any underage workers, a number of strict measures have been placed.

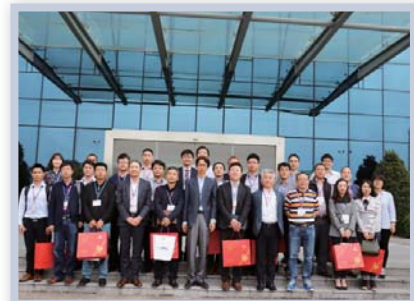
The following procedures are the synopsis of the policy:

1. All applicants for employment must present valid identification documents;
2. All applicants for employment must be interviewed by three interviewers; and
3. All documents provided and the results of the interviews will be carefully reviewed by both HR manager and team head of the hiring department.

In addition to the above procedures, internal escalation procedure for any unauthorized underage employment has also been set up. Any unauthorized underage workers can be anonymously escalated to the management. Furthermore, regarding this particular aspect, a quarterly review is conducted for the floor workers at the production site.

### 3.E. SUPPLY CHAIN MANAGEMENT

Cowell China respects the partnership with suppliers and desires to enhance its relationship for the sustainable and mutual growth with integrity. In order to achieve this goal, the Company has integrated environment protection and social responsibility into the supply chain management policy, which extensively covers various areas including production management, quality control, environmental governance and labor practice. The Company keeps exchanging dialogue with suppliers in routine work, physical visits, field review, supplier meetings and conferences, etc.





## Environmental, Social and Governance Report

“Cowell Suppliers’ Day”, the annual suppliers’ conference, is one of most important communication methods that Cowell China has adopted for many years. During the annual suppliers’ conference, the Company shared with suppliers not only the Company’s business snapshot and outlook, but also Cowell’s Supplier Code of Conduct specifying business ethics, fair treatment, environmental protection, no harmful substances use, prohibition of underage labor, health and safety of workers, etc. At the annual suppliers’ conference held on March 30, 2017, ‘Suppliers of the Year’ awards were given to a number of suppliers who would be a role model to others.



This event helps suppliers understand Cowell China’s ESG requirements and business principles.

### ***Suppliers’ ESG Requirements***

Cowell China encourages suppliers to adopt ESG principles, especially in the areas of labor and human rights, health and safety, business ethics and environmental and social responsibility. The Company carefully selects its suppliers based on the above principles and any violations of these principles may jeopardize overall business relationship with Cowell China. Cowell China’s standard purchase agreement includes supplier’s social responsibility which extensively covers ESG requirements such as environmental protection, fair treatment for employment, health and safety of workers and business ethics.

### ***Supplier Selection Process***

When Cowell China needs to select a new supplier, it strictly follows procedures and on-site visit is one of critical steps in selecting new suppliers. The procurement team examines the qualification of potential suppliers in a stringent manner. Before sending out a request for proposal (“RFP”) to potential suppliers, the followings are carefully reviewed:

1. Financial condition of the supplier
2. Shipping track record
3. Product quality assurance

Based on the outcome of the above review, multiple suppliers are shortlisted. Then, finally pricing competitiveness and ESG compliance are evaluated as core criteria for the selection of suppliers.

## Environmental, Social and Governance Report

The following shows geographical diversification of Cowell China's suppliers in 2017:

**[TABLE 16] SUPPLIES BY GEOGRAPHY**

<b>SUPPLIER LOCATION</b>	<b># OF SUPPLIERS</b>
China	
South China	267
Middle China	37
North China	8
West China	1
Korea	43
Japan	8
Hong Kong	10
Others	11
<b>Total</b>	<b>385</b>

**[TABLE 17] WORK INJURIES**

<b>LENGTH OF RELATIONSHIP</b>	<b># OF SUPPLIERS</b>
Less than 1 year	30
1~2 years	105
More than 3 years	250
<b>Total</b>	<b>385</b>

In terms of geography, suppliers of Cowell China are widely diversified, but majority of Chinese suppliers are located in South China. Furthermore, 65% of total suppliers have more than 3 years of business relationship with Cowell China while less than 8% of total suppliers have less than 1 year of business relationship.

**3.F. PRODUCT RESPONSIBILITY**

Cowell China's continued effort in improving quality management system has been recognized by successful renewal of ISO 9001: 2008. This ISO 9001: 2008 was based on the following eight quality management principles which would further help Cowell China improve its performance:

1. Customer focus: fulfillment of customer needs
2. Leadership: unity of purpose and direction
3. Involvement of people: employees' involvement in achieving the organization's objectives
4. Process approach: resources and activities managed as processes
5. System management: systemized approach for the effectiveness and efficiency
6. Continual improvement: adopting system as a part of everyday culture for improvement
7. Fact based decision-making: making decisions based on the logical and intuitive analysis of data and factual information
8. Mutual benefit: enhancing relationship with customers for mutual benefit and value

## Environmental, Social and Governance Report



In fact, all manufacturing processes are carefully designed and validated by long experienced engineers. Production activities are performed in Class 10 clean room environment to satisfy our clients' stringent requirements for the quality of products. After every step of the production, the outcome produced are carefully examined and tested based on well-defined testing procedures. Even then, in order to strengthen quality assurance program, a proper customer return product procedure has been set up. The main purpose of this procedure is to efficiently handle the returned products from the customer due to not only product quality issues, but also any relevant re-inspection or re-test procedures prior to shipment back to the customer.

### **Protecting Intellectual Property Rights & Privacy Policies**

In accordance with the non-disclosure agreement (“NDA”) agreed with the customers, all manufacturing activities within Cowell China have been treated in a highly confidential manner and the whole property of Cowell China is secured as the restricted area where only authorized persons can enter. Any violation of NDA requirement is regularly reviewed by both internal audit team and legal team and the outcome of the regular review is reported to GRMC, on a monthly basis, which determines further escalation to the Audit Committee or the board of directors. In addition, this agenda has been regularly specified in the GRMC report which has been reported to the Audit Committee on a quarterly basis. In the fiscal year of 2017, there has been no violation reported to either GRMC or Audit Committee.

### **Quality Assurance Process and Recall Procedures**

Cowell China's Return Material Authorization (“RMA”) system has two basic categories.

One is Incoming Quality Control (“IQC”) reject/Field Failure returns/Production fallouts (Quality), which encompasses product returned for technical reasons such as electrical rejections and/or functional failures, cosmetic and mechanical. Retest and sorting fees related to the quality defect is included in this category. The other is Administrative Returns (Non Quality), which encompasses all products returned for non-technical reasons. Examples are shipment error and freight fees, price reduction, customer requested changes and other administrative issues in nature.

## Environmental, Social and Governance Report

For quality related returns, Cowell Quality Assurance (“QA”) manager or representative confirms the customer complaint and communicates recommendations to Cowell China’s quality engineering manager, director, supply chain, sales team and procurement team as needed. And a corrective & preventive action report is created to follow up in accordance with the procedures. If any quality issue at the customers’ end is suspected, customers’ quality representative will conduct the validation process prior to further actions.

### 3.G. ANTI-CORRUPTION

The Prevention of Bribery Ordinance in Hong Kong and relevant laws and regulations on anti-corruption and bribery in China are a part of core principles of Cowell China’s Code of Conduct. The core principles of anti-corruption policy are well communicated with all Cowell China employees through a regular training. Cowell China’s anti-corruption policy prohibits any and all form of corruption, extortion and embezzlement. In particular, employees of Cowell China shall in no event bribe foreign civil servants in any transactions and shall comply with laws that prohibit promising or giving bribes or any act of expressing intention to give either directly or indirectly to foreign civil servants regarding business affairs for the purpose of achieving unlawful profit in any transactions.

The followings are Cowell China’s corruption prevention practices:

1. No monetary gift should be given or received;
2. A pre-approval must be sought when any employee of Cowell China needs to take part in activities including meals with suppliers or any relevant party outside of Cowell China;
3. No employee of Cowell China is allowed to use Cowell China’s business opportunities for personal interest or benefit; and
4. All employees of Cowell China must attend “Anti-Corruption” training annually.

Furthermore, a suitable whistleblowing policy has been adopted by the management, which enables employees and other stakeholders to escalate any suspected misconduct or malpractice within Cowell China without any retribution. In the fiscal year of 2017, there was no case relating to anti-corruption reported.

### 3.H. COMMUNITY INVESTMENT

Cowell China, since its inception in 2002, has grown its business substantially. The management of Cowell China has recognized that such success and growth could not have been achieved without support from people, local community where Cowell China operates and the government. As a token of appreciation and for the sustainable growth, Cowell China has shown its commitment to the community in form of voluntary participation in community services and monetary sponsorship or charitable donations caring for people in need as well as supporting educational and environmental protection activities.

## Environmental, Social and Governance Report

The areas of our focus in this aspect are as follows:

1. Fighting Poverty
2. Helping young people's education
3. Caring the elderly
4. Protecting environment
5. Supporting community development

In the fiscal year of 2017, the Group has sponsored or donated to:

1.	Hengkeng Village Committee	RMB11,988	(US\$1,770)
2.	Korean Chamber of Commerce:	RMB100,000	(US\$14,769)
3.	Korean School	RMB30,000	(US\$4,430)
4.	MIRAL Welfare Foundation (for physically disabled children):	KRW 9,000,000	(US\$7,958)

\* 2017 average foreign exchange rate (HKD/USD=7.76; KRW/USD=1130.84; RMB/USD=6.7708)

## Environmental, Social and Governance Report

HKEx ESG Reporting Guide Index			
General Disclosures & KPIs	Description	Page number	Remarks
<b>SUBJECT AREA A. ENVIRONMENTAL</b>			
<b>Aspect A1: Emissions</b>			
General Disclosure		66–71	
KPI A1.1	The types of emissions and respective emission data.	68	[TABLE 4] [TABLE 5]
KPI A1.2	Greenhouse gas emissions in total (in tonnes)	66–67	[TABLE 3]
KPI A1.3	Total hazardous waste produced (in tonnes)	70	[TABLE 8]
KPI A1.4	Total non-hazardous waste produced (in tonnes)	70	[TABLE 8]
KPI A1.5	Description of measures to mitigate emissions and results achieved.	70–72	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	71	[TABLE 9]
<b>Aspect A2: Use of Resources</b>			
General disclosure		69, 71–72	
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity	71–72	[TABLE 10] Energy Consumption
KPI A2.2	Water consumption in total and intensity	69, 70–72	[TABLE 6] Water Inspection Results [TABLE 7] Discharged Water [TABLE 10] Water Consumption
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	72	[TABLE 11] 2017 Energy Saving Initiatives
KPI A2.4	Description of whether there is any issue in sourcing water that is t for purpose, water efficiency initiatives and results achieved.	72	
KPI A2.5	Total packaging material used for finished products (in tonnes)	71	
<b>Aspect A3: The Environment and Natural Resources</b>			
General disclosure		66 ,69, 71, 72	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.		Natural resources are not material to our operation.

## Environmental, Social and Governance Report

<b>HKEx ESG Reporting Guide Index</b>			
<b>General Disclosures &amp; KPIs</b>	<b>Description</b>	<b>Page number</b>	<b>Remarks</b>
<b>SUBJECT AREA B. SOCIAL</b>			
<b>EMPLOYMENT &amp; LABOUR PRACTICES</b>			
<b>Aspect B1: Employment</b>			
General Disclosure		73–74	There was no material non-compliance regarding employment and labour practices during the fiscal year of 2017
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	73	[TABLE 12]
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	73	[TABLE 12]
<b>Aspect B2: Health and Safety</b>			
General Disclosure		75–76	
KPI B2.1	Number and rate of work-related fatalities.	76	[TABLE 13]
KPI B2.2	Lost days due to work injury.	76	[TABLE 14]
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	76	Health & Safety Day' Emergency Prevention & Readiness
<b>Aspect B3: Development and Training</b>			
General Disclosure		76	
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	77	[TABLE 15]
KPI B3.2	The average training hours completed per employee by gender and employee category.	77	[TABLE 15]
<b>Aspect B4: Labour Standards</b>			
General Disclosure		78	Summary of Labor Policy
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	78	
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	78	

## Environmental, Social and Governance Report

HKEx ESG Reporting Guide Index			
General Disclosures & KPIs	Description	Page number	Remarks
<b>OPERATING PRACTICE</b>			
<b>Aspect B5: Supply Chain Management</b>			
General Disclosure		78–80	
KPI B5.1	Number of suppliers by geographical region.	80	[TABLE 16] [TABLE 17]
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	79–80	
<b>Aspect B6: Product Responsibility</b>			
General Disclosure		80–82	ISO 9001:2008
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.		Not relevant to our operation
KPI B6.2	Number of products and service related complaints received & how they are dealt with.		No complaint received
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	80–82	
KPI B6.4	Description of quality assurance process and recall procedures.	81	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	81	
<b>Aspect B7: Anti-corruption</b>			
General Disclosure		82	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.		No legal cases regarding corrupt practices
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	82	
<b>COMMUNITY</b>			
<b>Aspect B8: Community Investment</b>			
General Disclosure		82	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	83	
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	83	



# Independent Auditor's Report

## Independent auditor's report to the shareholders of Cowell e Holdings Inc.

*(Incorporated in the Cayman Islands with limited liability)*

### Opinion

We have audited the consolidated financial statements of Cowell e Holdings Inc. ("the Company") and its subsidiaries ("the Group") set out on pages 92 to 150, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 December 31, 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

### Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKASs") issued by the Hong Kong Institute of Certified Public Accountants ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independent Auditor's Report

## Key audit matters

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

<b>Revenue recognition</b>	
<i>Refer to accounting policy note 1(q) and note 3 to the consolidated financial statements</i>	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Revenue mainly comprises sales of camera modules and optical components to customers.</p> <p>The Group enters into a framework sale and purchase agreement with each major customer and manufactures and sells its products in accordance with the terms of separate purchase orders.</p> <p>For the majority of the Group's sales, once the products are delivered to the location designated by the customer (either the shipping port or the destination port), the risks and rewards of ownership of the goods are considered to have been transferred to the customer and revenue is recognised accordingly.</p> <p>We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> <li>• evaluating the design, implementation and operating effectiveness of management's key internal controls which govern revenue recognition;</li> <li>• inspecting key customer contracts to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards;</li> <li>• comparing sales transactions, on a sample basis, with the underlying sales invoices and shipping documents to assess whether the related revenue was recognised in the Group's revenue recognition accounting policies;</li> <li>• assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the framework sale and purchase agreement by inspecting the relevant underlying shipping documents which indicated the date of delivery of the goods to the location designated by the customer;</li> <li>• inspecting a sample of credit notes issued after the financial year end and evaluating whether the related adjustments to revenue had been recognised in the appropriate financial period;</li> <li>• inspecting all manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing details of the adjustments with relevant underlying documentation.</li> </ul>

## Independent Auditor's Report

### Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

### Responsibilities of the directors for the consolidated financial statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## Independent Auditor's Report

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, 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 HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Independent Auditor's Report

**Auditor's responsibilities for the audit of the consolidated financial statements** (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Ka Nang.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

March 22, 2018

## Consolidated Statement of Profit or Loss

for the year ended December 31, 2017  
(Expressed in United States dollars)

	Note	2017 \$'000	2016 \$'000
<b>Revenue</b>	3	<b>740,734</b>	914,545
Cost of sales		<b>(666,507)</b>	(838,399)
<b>Gross profit</b>		<b>74,227</b>	76,146
Other revenue	4	<b>2,968</b>	2,709
Other net (loss)/income	4	<b>(3,651)</b>	4,281
Selling and distribution expenses		<b>(3,168)</b>	(3,236)
Administrative expenses		<b>(39,263)</b>	(44,484)
<b>Profit from operations</b>		<b>31,113</b>	35,416
Finance costs	5(a)	<b>(729)</b>	(806)
Donation		<b>(29)</b>	(547)
<b>Profit before taxation</b>	5	<b>30,355</b>	34,063
Income tax	6	<b>(2,736)</b>	(5,568)
<b>Profit for the year</b>		<b>27,619</b>	28,495
<b>Earnings per share</b>	10		
Basic		<b>\$0.033</b>	\$0.034
Diluted		<b>\$0.033</b>	\$0.034

The notes on pages 97 to 150 form part of these consolidated financial statements. Details of dividends payable to equity shareholder of the Company attributable to the profit for the year are set out in note 22(b).

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended December 31, 2017  
(Expressed in United States dollars)

	<i>Note</i>	<b>2017</b> <b>\$'000</b>	2016 \$'000
<b>Profit for the year</b>		<b>27,619</b>	28,495
<b>Other comprehensive income for the year (after tax adjustments):</b>	9		
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of financial statements		<b>18,551</b>	(17,901)
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurement of net defined benefit liability		<b>34</b>	(18)
		<b>18,585</b>	(17,919)
<b>Total comprehensive income for the year</b>		<b>46,204</b>	10,576

The notes on pages 97 to 150 form part of these consolidated financial statements.

# Consolidated Statement of Financial Position

as at December 31, 2017  
(Expressed in United States dollars)

	Note	2017 \$'000	2016 \$'000
<b>Non-current assets</b>			
Property, plant and equipment	11	121,343	123,316
Intangible assets	12	8,079	5,591
Other receivables	15(d)	6,628	6,556
Deferred tax assets	21(b)	832	329
		<b>136,882</b>	135,792
<b>Current assets</b>			
Inventories	14	107,366	60,026
Trade and other receivables	15	139,904	231,158
Current tax recoverable	21(a)	1,221	6,981
Pledged deposits	16(a)	3,427	3,193
Bank deposits	16(b)	21,409	39,675
Cash and cash equivalents	16(b)	93,937	85,435
		<b>367,264</b>	426,468
<b>Current liabilities</b>			
Trade and other payables	17	117,952	168,693
Bank loans	18	47,114	89,249
Current tax payable	21(a)	5,359	6,567
		<b>170,425</b>	264,509
<b>Net current assets</b>			
		<b>196,839</b>	161,959
<b>Total assets less current liabilities</b>			
		<b>333,721</b>	297,751
<b>Non-current liabilities</b>			
Net defined benefit retirement obligation	19	225	178
Deferred tax liabilities	21(b)	—	210
		<b>225</b>	388
<b>NET ASSETS</b>			
		<b>333,496</b>	297,363
<b>CAPITAL AND RESERVES</b>			
Share capital	22(c)	3,326	3,326
Reserves		330,170	294,037
<b>TOTAL EQUITY</b>			
		<b>333,496</b>	297,363

Approved and authorised for issue by the board of directors on March 22, 2018.

Mr. Lee Dong Goo  
Director

Mr. Seong Seokhoon  
Director

The notes on pages 97 to 150 form part of these consolidated financial statements.



# Consolidated Statement of Changes in Equity

for the year ended December 31, 2017  
(Expressed in United States dollars)

Note	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Capital redemption reserve \$'000	Other reserve \$'000	General reserve fund \$'000	Exchange reserve \$'000	Retained profits \$'000	Total \$'000
<b>Balance at January 1, 2016</b>	3,326	66,398	2,316	7	762	7,522	(5,778)	211,102	285,655
<b>Changes in equity for 2016:</b>									
Profit for the year	—	—	—	—	—	—	—	28,495	28,495
Other comprehensive income	9	—	—	—	—	—	(17,901)	(18)	(17,919)
Total comprehensive income	—	—	—	—	—	—	(17,901)	28,477	10,576
Transfer from retained profits	—	—	—	—	—	603	—	(603)	—
Equity settled share-based transactions	—	—	1,132	—	—	—	—	—	1,132
	—	—	1,132	—	—	603	—	(603)	1,132
<b>Balance at December 31, 2016</b>	3,326	66,398	3,448	7	762	8,125	(23,679)	238,976	297,363
<b>Balance at January 1, 2017</b>	3,326	66,398	3,448	7	762	8,125	(23,679)	238,976	297,363
<b>Changes in equity for 2017:</b>									
Profit for the year	—	—	—	—	—	—	—	27,619	27,619
Other comprehensive income	9	—	—	—	—	—	18,551	34	18,585
Total comprehensive income	—	—	—	—	—	—	18,551	27,653	46,204
Dividends approved in respect of the previous year	22(b)	(8,548)	—	—	—	—	—	—	(8,548)
Transfer from retained profits	—	—	—	—	—	2,057	—	(2,057)	—
Equity settled share-based transactions	—	—	317	—	—	—	—	—	317
Dividends declared in respect of the current year	22(b)	—	—	—	—	—	—	(1,840)	(1,840)
	—	(8,548)	317	—	—	2,057	—	(3,897)	(10,071)
<b>Balance at December 31, 2017</b>	3,326	57,850	3,765	7	762	10,182	(5,128)	262,732	333,496

The notes on pages 97 to 150 form part of these consolidated financial statements.

# Consolidated Cash Flow Statement

for the year ended December 31, 2017  
(Expressed in United States dollars)

	Note	2017 \$'000	2016 \$'000
<b>Operating activities</b>			
Cash generated from operations	16(c)	60,398	17,612
Tax refunded/(paid)			
— Hong Kong Profits Tax refunded/(paid)		5,234	(10,817)
— Overseas tax paid		(4,302)	(5,476)
<b>Net cash generated from operating activities</b>		<b>61,330</b>	<b>1,319</b>
<b>Investing activities</b>			
Payment for purchase of property, plant and equipment		(15,800)	(39,701)
Proceeds from sale of property, plant and equipment		30	1
Compensation received for loss of property, plant and equipment		—	1,071
Payment for purchase of intangible assets		(3,074)	(3,734)
Interest received		855	488
Decrease/(increase) in bank deposits		18,266	(25,170)
<b>Net cash generated from/(used in) investing activities</b>		<b>277</b>	<b>(67,045)</b>
<b>Financing activities</b>			
Proceeds from bank loans	16(d)	585,466	713,542
Repayment of bank loans	16(d)	(627,601)	(665,115)
Interest paid	16(d)	(729)	(806)
(Increase)/decrease in pledged deposits		(234)	25,305
Dividends paid to equity shareholders of the company			
— Final dividend of the previous year		(8,548)	—
— Interim dividend of the current year		(1,840)	—
<b>Net cash (used in)/generated from financing activities</b>		<b>(53,486)</b>	<b>72,926</b>
<b>Net increase in cash and cash equivalents</b>		<b>8,121</b>	<b>7,200</b>
<b>Cash and cash equivalents at 1 January</b>	16(b)	<b>85,435</b>	<b>79,056</b>
<b>Effect of foreign exchange rate changes</b>		<b>381</b>	<b>(821)</b>
<b>Cash and cash equivalents at 31 December</b>	16(b)	<b>93,937</b>	<b>85,435</b>

The notes on pages 97 to 150 form part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 1 Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and related interpretations, promulgated by the International Accounting Standards Board (“IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2017 comprise the Company and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain employee benefits are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 1 Significant accounting policies (continued)

#### (c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 16(d) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### (d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)).

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**1 Significant accounting policies** (continued)**(e) Other property, plant and equipment**

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)), with the exception of construction in progress which is stated at cost less any impairment losses (see note 1(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Leasehold improvements	Shorter of the terms of leases or 20 years
— Plant and machinery	8 — 10 years
— Equipment, furniture and fixtures	3 — 5 years
— Motor vehicles	3 — 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(f) Intangible assets**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(s)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(h)).

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 1 Significant accounting policies (continued)

#### (f) Intangible assets (continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

—	Development costs	5 years
—	Software	5 to 10 years

Both the period and method of amortisation are reviewed annually.

#### (g) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

#### (h) Impairment of assets

##### (i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**1 Significant accounting policies** (continued)**(h) Impairment of assets** (continued)**(i) Impairment of receivables** (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

**(ii) Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets; and
- interests in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 1 Significant accounting policies (continued)

#### (h) Impairment of assets (continued)

##### (ii) Impairment of other assets (continued)

###### — Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

###### — Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measureable), or value in use (if determinable).

###### — Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**1 Significant accounting policies** (continued)**(j) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

**(k) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(l) Trade and other payables**

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(m) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

**(n) Employee benefits****(i) Short-term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 1 Significant accounting policies (continued)

#### (n) Employee benefits (continued)

##### (ii) **Defined benefit retirement plan obligations**

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "selling and distribution expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

##### (iii) **Share-based payments**

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**1 Significant accounting policies** (continued)**(n) Employee benefits** (continued)**(iii) Share-based payments** (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

**(iv) Termination benefits**

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

**(o) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilised.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 1 Significant accounting policies (continued)

#### (o) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

#### (p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**1 Significant accounting policies** (continued)**(q) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

**(i) Sale of goods**

Revenue is recognised when goods are delivered at the customers' premises or consumed by customers, depending on sales terms, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

**(ii) Rental income from operating leases**

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

**(iii) Interest income**

Interest income is recognised as it accrues using the effective interest method.

**(iv) Compensation income**

Compensation income is recognised when the right to receive payment is established.

**(v) Subsidy income**

Subsidies are recognised initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Subsidies that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Subsidies that compensate the Group for the cost of an asset are initially recognised as deferred income and consequently are recognised in profit or loss over the useful life of the assets by way of reduced depreciation expense.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 1 Significant accounting policies (continued)

#### (r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations with functional currency other than United States dollars are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into United States dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than United States dollars, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

#### (s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**1 Significant accounting policies** (continued)**(t) Related parties**

- (i) A person, or a close member of that person's family, is related to the Group if that person:
  - (1) has control or joint control over the Group;
  - (2) has significant influence over the Group; or
  - (3) is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
  - (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (3) Both entities are joint ventures of the same third party.
  - (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (6) The entity is controlled or jointly controlled by a person identified in (i).
  - (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

**(u) Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2 Accounting judgements and estimates

Note 19 contains information about the assumptions and their risk factors relating to defined benefit retirement obligations. Other key areas of estimation uncertainty are as follows:

#### (a) Impairment of property, plant and equipment and intangible assets

If the circumstances indicate that the carrying values of these assets may not be recoverable, the assets may be considered “impaired” and an impairment loss may be recognised in accordance with IAS 36, Impairment of assets. Under IAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs of disposal and value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount. However, actual sales volume, selling prices and operating costs may be different from assumptions which may result in a material adjustment to the carrying amount of the assets affected. Details of the nature and carrying amounts of property, plant and equipment and intangible assets are disclosed in notes 11 and 12 respectively.

#### (b) Impairment of receivables

Receivables that are measured at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recorded. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is a change in the objective evidence of impairment in relation to the debtors, the actual impairment loss would be higher or lower than the allowance for doubtful debts recognised in the financial statements.

#### (c) Useful lives of other property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for the property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

#### (d) Write down of inventories

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, projections of expected future saleability of goods and, management experience and judgement. Based on this review, a write down of inventories will be made when the estimated net realisable value of inventories decline below their carrying amounts. Due to changes in technological environment, actual saleability of goods may be different from estimation and the statement of profit or loss in future accounting periods could be affected by differences in this estimation.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**3 Revenue and segment reporting****(a) Revenue**

The principal activities of the Group are manufacturing and sale of camera module and optical components. Revenue represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group's customer base includes two customers (2016: two customers), with each of whom transactions have exceeded 10% of the Group's revenues, for the year ended December 31, 2017. Revenues from sales to these customers, arose in the camera module segment, during the reporting period are set out below.

	2017 \$'000	2016 \$'000
Largest customer	633,122	780,221
Percentage of total revenue	85%	85%
Second largest customer	83,086	104,704
Percentage of total revenue	11%	11%

Details of concentrations of credit risk arising from these customers are set out in note 23(a).

**(b) Segment reporting**

The Group manages its businesses by division, which is organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Camera module: this segment is involved in the design, development, manufacture and sale of camera modules for mobile devices and home appliances.
- Optical components: this segment is involved in the design, development, manufacture and sale of optical components for optical disk drivers.

**(i) Segment results**

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**3 Revenue and segment reporting** (continued)**(b) Segment reporting** (continued)**(i) Segment results** (continued)

The measure used for reporting segment profit is profit before tax. To arrive at segment profit, the Group's earnings are further adjusted for items not specially attributed to individual segments, such as certain directors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning segment profit, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended December 31, 2017 and 2016 is set out below.

	<b>Camera module</b>	
	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Revenue from external customers	<b>735,605</b>	907,871
Reportable segment revenue	<b>735,605</b>	907,871
Segment profit	<b>33,632</b>	38,509
Bank interest income	<b>850</b>	485
Finance costs	<b>(724)</b>	(800)
Depreciation and amortisation	<b>(21,819)</b>	(18,192)
Additions to non-current segment assets	<b>18,784</b>	43,042

	<b>Optical components</b>	
	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Revenue from external customers	<b>5,129</b>	6,674
Reportable segment revenue	<b>5,129</b>	6,674
Segment loss	<b>(2,180)</b>	(3,021)
Bank interest income	<b>5</b>	3
Finance costs	<b>(5)</b>	(6)
Depreciation and amortisation	<b>(930)</b>	(985)
Additions to non-current segment assets	<b>90</b>	393

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**3 Revenue and segment reporting** (continued)**(b) Segment reporting** (continued)**(i) Segment results** (continued)

	<b>Total</b>	
	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Revenue from external customers	<b>740,734</b>	914,545
Reportable segment revenue	<b>740,734</b>	914,545
Segment profit	<b>31,452</b>	35,488
Bank interest income	<b>855</b>	488
Finance costs	<b>(729)</b>	(806)
Depreciation and amortisation	<b>(22,749)</b>	(19,177)
Additions to non-current segment assets	<b>18,874</b>	43,435

**(ii) Reconciliations of reportable segment revenues and profit or loss**

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
<b>Revenue</b>		
Reportable segment revenue and consolidated revenue	<b>740,734</b>	914,545
<b>Profit</b>		
Reportable segment profit	<b>31,452</b>	35,488
Unallocated head office and corporate expenses	<b>(1,097)</b>	(1,425)
Consolidated profit before taxation	<b>30,355</b>	34,063

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**3 Revenue and segment reporting** (continued)**(b) Segment reporting** (continued)**(iii) Geographic information**

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and intangible assets ("specified non-current assets"). The Group's revenue from external customers is presented based on locations of goods physically delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of the operation to which they are allocated, in the case of intangible assets.

	Revenue from external customers		Specified non-current assets	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
The People's Republic of China ("PRC") (including Hong Kong) (Place of domicile)	688,665	851,823	128,454	128,160
The Republic of Korea ("Korea")	34,793	55,192	968	747
Others	17,276	7,530	—	—
	<b>740,734</b>	914,545	<b>129,422</b>	128,907

**4 Other revenue and other net (loss)/income**

	2017 \$'000	2016 \$'000
<b>(a) Other revenue</b>		
Bank interest income	855	488
Compensation income	—	518
Rental income	158	174
Government subsidy	643	1,402
Others	1,312	127
	<b>2,968</b>	2,709
<b>(b) Other net (loss)/income</b>		
Net loss on disposal of plant and equipment	(2,491)	(661)
Net foreign exchange (loss)/gain	(1,722)	4,946
Others	562	(4)
	<b>(3,651)</b>	4,281

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**5 Profit before taxation**

Profit before taxation is arrived at after charging:

	2017 \$'000	2016 \$'000
<b>(a) Finance costs</b>		
Interest on bank borrowings	729	806
<b>(b) Staff costs#*</b>		
Contributions to defined contribution retirement plan	4,156	4,864
Expenses recognised in respect of defined benefit retirement plans (note 19(a)(v))	188	121
Equity settled share-based payment expenses (note 20)	317	1,132
Salaries, wages and other benefits	50,793	55,953
	<b>55,454</b>	62,070

Staff costs also include directors' remuneration disclosed in note 7.

	2017 \$'000	2016 \$'000
<b>(c) Other items</b>		
Amortisation (note 12)	910	518
Depreciation# (note 11)	21,839	18,659
Impairment loss of trade receivables (note 15(b))	104	285
Auditors' remuneration	357	323
Operating lease charges: minimum lease payments in respect of property rentals#	3,675	3,628
Research and development costs other than depreciation*	15,725	15,655
Cost of inventories# (note 14(b))	666,507	838,399

# Cost of inventories includes \$50,900,000 (2016: \$53,922,000) relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

\* Research and development costs other than depreciation includes \$ 10,998,000 (2016: \$8,728,000) relating to staff costs, which amounts are also included in the respective total amounts disclosed separately in note 5(b).

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**6 Income tax in the consolidated statement of profit or loss****(a) Income tax in the consolidated statement of profit or loss represents:**

	2017 \$'000	2016 \$'000
<b>Current tax — Hong Kong Profits Tax</b>		
Provision for the year	380	1,346
Over-provision in respect of prior years	(3)	(69)
	377	1,277
<b>Current tax — Overseas</b>		
Provision for the year	3,505	4,127
(Over)/under-provision in respect of prior years	(432)	52
	3,073	4,179
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(714)	150
Change in tax rate	—	(38)
	(714)	112
	2,736	5,568

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

Pursuant to the Administrative Measures for Recognition of High-New Technology Enterprise (“HNTE”) jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation, Dongguan Cowell Optic Electronics Co., Ltd. (“Cowell DG”), an indirect wholly owned subsidiary of the Company, was certified as a HNTE. According to the provisions of Article 28 “Corporate Income Tax Law of the People’s Republic of China”, the effective Corporate Income Tax (“CIT”) rate for 2016 till 2018 will be subject to a reduced tax rate of 15%.

Under the tax law in Korea, the statutory corporate tax rate applicable to the subsidiary in Korea is 10% for assessable income below Korean Won (“KRW”) 200 million, 20% for assessable income between KRW200 million and KRW20 billion and 22% for assessable income above KRW20 billion for the years presented.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**6 Income tax in the consolidated statement of profit or loss** (continued)**(b) Reconciliation between tax expense and accounting profit at applicable tax rates:**

	2017 \$'000	2016 \$'000
Profit before taxation	30,355	34,063
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	4,168	5,060
Tax effect of non-deductible expenses	366	920
Tax effect of non-taxable income	(309)	(257)
Effect of research and development bonus deduction	(1,108)	—
Over-provision in prior years	(435)	(17)
Others	54	(100)
Effect of deferred tax balances at 1 January resulting from a change in tax rate	—	(38)
Actual tax expense	2,736	5,568

**7 Directors' emoluments**

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Directors' fees \$'000	Discretionary bonuses \$'000	Salaries, allowances and benefits in kind \$'000	Retirement scheme contributions \$'000	Sub-total \$'000	Share-based payments (note 2) \$'000	2017 Total \$'000
<b>Chairman</b>							
Seong Seokhoon	—	44	177	—	221	135	356
<b>Executive directors</b>							
Kim Kab Cheol (resigned on September 30, 2017)	—	53	278	—	331	—	331
Lee Dong Goo (appointed on May 18, 2017) (note 3)	—	22	89	—	111	84	195
<b>Non-executive directors</b>							
<b>Independent non-executive directors</b>							
Kim Chan Su	—	—	30	—	30	—	30
Song Si Young	—	—	30	—	30	—	30
Kim Ilung (resigned on March 23, 2017) (note 1)	—	—	—	—	—	—	—
Andrew Look (appointed on April 3, 2017)	—	—	15	—	15	—	15
	—	119	619	—	738	219	957

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 7 Directors' emoluments (continued)

	Directors' fees \$'000	Discretionary bonuses \$'000	Salaries, allowances and benefits in kind \$'000	Retirement scheme contributions \$'000	Sub-total \$'000	Share-based payments (note 2) \$'000	2016 Total \$'000
<b>Chairman</b>							
Seong Seokhoon (redesignated as chairman on March 1, 2016)	—	81	162	—	243	135	378
Kwak Joung Hwan (resigned on February 29, 2016)	—	—	200	1	201	—	201
<b>Executive directors</b>							
Kim Kab Cheol	—	85	195	—	280	404	684
<b>Non-executive directors</b>							
Kim Jae Min (resigned on May 12, 2016)	—	—	—	—	—	—	—
<b>Independent non-executive directors</b>							
Okayama Masanori (resigned on May 12, 2016)	—	—	18	—	18	—	18
Kim Chan Su	—	—	28	—	28	—	28
Song Si Young	—	—	30	—	30	—	30
Kim Ilung (appointed on May 13, 2016) (note 1)	—	—	—	—	—	—	—
	—	166	633	1	800	539	1,339

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes: 1. Mr Kim Ilung waived his entitlements to his emoluments.

2. These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(n)(iii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 20.

3. US\$215,000 and US\$51,000 of salaries and other emoluments and share-based payments received by Mr Lee Dong Goo respectively before appointment as executive director are not included in above note.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**8 Individuals with highest emoluments**

Of the five individuals with the highest emoluments, three (2016: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2016: two) individuals are as follows:

	2017 \$'000	2016 \$'000
Salaries and other emoluments	410	394
Contributions to retirement benefit scheme	59	54
	<b>469</b>	448

The emoluments of the two (2016: two) individuals with the highest emoluments are within the following bands:

	2017 Number of individuals	2016 Number of individuals
HK\$1,000,001 (equivalent to \$129,000) to HK\$1,500,000 (equivalent to \$193,000)	1	1
HK\$2,000,001 (equivalent to \$258,000) to HK\$2,500,000 (equivalent to \$322,000)	1	1

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**9 Other comprehensive income****Tax effects relating to each component of other comprehensive income**

	2017			2016		
	Before tax amount \$'000	Tax expense \$'000	Net-of-tax amount \$'000	Before tax amount \$'000	Tax benefit \$'000	Net-of- tax amount \$'000
Exchange differences on translation of financial statements	18,551	—	18,551	(17,901)	—	(17,901)
Remeasurement of net defined benefit liability	44	(10)	34	(23)	5	(18)
Other comprehensive income	18,595	(10)	18,585	(17,924)	5	(17,919)

**10 Earnings per share****(a) Basis earnings per share**

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$27,619,000 (2016: \$28,495,000) and 831,519,000 ordinary shares (2016: 831,519,000 shares) in issue during the year.

**(b) Diluted earnings per share**

There were no dilutive potential ordinary shares outstanding during the years ended December 31, 2017 and 2016. Accordingly, the diluted earnings per share is the same as basic earnings per share.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**11 Property, plant and equipment****Reconciliation of carrying amount**

	Leasehold improvements \$'000	Plant and machinery \$'000	Equipment, furniture and fixtures \$'000	Motor vehicles \$'000	Construction in progress \$'000	Total \$'000
<b>Cost or valuation:</b>						
At January 1, 2016	43,645	103,923	17,899	490	63	166,020
Exchange adjustments	(2,958)	(8,582)	(1,479)	(31)	(3)	(13,053)
Additions	2,280	27,952	8,493	—	976	39,701
Disposals	—	(2,743)	(740)	—	—	(3,483)
Transfers	—	998	—	—	(998)	—
At December 31, 2016 and January 1, 2017	<b>42,967</b>	<b>121,548</b>	<b>24,173</b>	<b>459</b>	<b>38</b>	<b>189,185</b>
Exchange adjustments	<b>2,639</b>	<b>6,954</b>	<b>1,583</b>	<b>25</b>	<b>4</b>	<b>11,205</b>
Additions	<b>441</b>	<b>11,180</b>	<b>3,859</b>	<b>127</b>	<b>193</b>	<b>15,800</b>
Disposals	—	<b>(6,734)</b>	<b>(1,554)</b>	<b>(195)</b>	—	<b>(8,483)</b>
Transfers	—	<b>160</b>	—	—	<b>(160)</b>	—
At December 31, 2017	<b>46,047</b>	<b>133,108</b>	<b>28,061</b>	<b>416</b>	<b>75</b>	<b>207,707</b>
<b>Accumulated depreciation:</b>						
At January 1, 2016	6,900	35,913	10,068	359	—	53,240
Exchange adjustments	(607)	(2,762)	(761)	(27)	—	(4,157)
Charge for the year	2,260	12,941	3,385	73	—	18,659
Written back on disposals	—	(1,329)	(544)	—	—	(1,873)
At December 31, 2016 and January 1, 2017	<b>8,553</b>	<b>44,763</b>	<b>12,148</b>	<b>405</b>	—	<b>65,869</b>
Exchange adjustments	<b>594</b>	<b>3,155</b>	<b>849</b>	<b>20</b>	—	<b>4,618</b>
Charge for the year	<b>2,222</b>	<b>15,335</b>	<b>4,220</b>	<b>62</b>	—	<b>21,839</b>
Written back on disposals	—	<b>(4,334)</b>	<b>(1,433)</b>	<b>(195)</b>	—	<b>(5,962)</b>
At December 31, 2017	<b>11,369</b>	<b>58,919</b>	<b>15,784</b>	<b>292</b>	—	<b>86,364</b>
<b>Net book value:</b>						
At December 31, 2016	34,414	76,785	12,025	54	38	123,316
At December 31, 2017	<b>34,678</b>	<b>74,189</b>	<b>12,277</b>	<b>124</b>	<b>75</b>	<b>121,343</b>

A customer has provided machinery to the Group for production of goods to that customer. The original acquisition costs of machinery borne by the customer amounted to \$116,174,000 (2016: \$116,618,000) and was not recognised as the Group's property, plant and equipment. There is no rental charge for the machinery and the management consider that the arrangement has been taken into account in determining sales prices with the customer.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 12 Intangible assets

	Development costs \$'000	Software \$'000	Total \$'000
<b>Cost:</b>			
At January 1, 2016	74	3,275	3,349
Exchange adjustments	(3)	(194)	(197)
Additions	—	3,734	3,734
At December 31, 2016 and January 1, 2017	<b>71</b>	<b>6,815</b>	<b>6,886</b>
Exchange adjustments	<b>9</b>	<b>357</b>	<b>366</b>
Additions	—	<b>3,074</b>	<b>3,074</b>
At December 31, 2017	<b>80</b>	<b>10,246</b>	<b>10,326</b>
<b>Accumulated amortisation:</b>			
At January 1, 2016	74	715	789
Exchange adjustments	(3)	(9)	(12)
Charge for the year	—	518	518
At December 31, 2016 and January 1, 2017	<b>71</b>	<b>1,224</b>	<b>1,295</b>
Exchange adjustments	<b>9</b>	<b>33</b>	<b>42</b>
Charge for the year	—	<b>910</b>	<b>910</b>
At December 31, 2017	<b>80</b>	<b>2,167</b>	<b>2,247</b>
<b>Net book value:</b>			
At December 31, 2017	—	8,079	8,079
At December 31, 2016	—	<b>5,591</b>	<b>5,591</b>

The amortisation charge for the year is included in “administrative expenses” in the consolidated statement of profit or loss.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**13 Investments in subsidiaries**

The following list contains the particulars of the subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ registration and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Cowell Optic Electronics Limited	Hong Kong	100 shares	100%	100%	—	Trading of camera module and optical products
Dongguan Cowell Optic Electronics Co., Ltd. ("Cowell DG")(*)	PRC	\$263,636,699	100%	—	100%	Manufacture of camera module and optical products
Cowell Electronics Co., Ltd	Korea	KRW1,934,540,000	100%	100%	—	Trading of camera module and optical products

\* Registered under the laws of the PRC as wholly foreign owned enterprise.

**14 Inventories****(a) Inventories in the consolidated statement of financial position comprise:**

	2017 \$'000	2016 \$'000
Raw materials	19,402	21,170
Work in progress	27,159	15,110
Finished goods	60,805	23,746
	<b>107,366</b>	60,026

**(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:**

	2017 \$'000	2016 \$'000
Carrying amount of inventories sold	667,038	837,683
Write-down of inventories	31	1,036
Reversal of write-down of inventories	(562)	(320)
	<b>666,507</b>	838,399

The reversal of write-down of inventories arose upon sales of inventories, the value of which was written-down in prior years.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**15 Trade and other receivables**

	2017 \$'000	2016 \$'000
Trade receivables	118,423	202,383
Less: allowance for doubtful debts (note 15(b))	(104)	(289)
	<b>118,319</b>	202,094
Other receivables and prepayments	21,585	29,064
	<b>139,904</b>	231,158

All of the trade and other receivables are expected to be recovered or recognised as expense within one year. Certain of the trade receivables were pledged to banks to secure banking facilities granted to the Group (note 18).

**(a) Ageing analysis**

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	2017 \$'000	2016 \$'000
Within 1 month	78,606	133,790
Over 1 to 2 months	38,630	67,382
Over 2 to 3 months	224	391
Over 3 months	859	531
	<b>118,319</b>	202,094

Trade receivables are due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 23(a).

**(b) Impairment of trade receivables**

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(h)(i)).

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**15 Trade and other receivables** (continued)**(b) Impairment of trade receivables** (continued)

The movement in the allowance for doubtful debts during the year is as follows:

	2017 \$'000	2016 \$'000
At 1 January	289	4
Reversal of impairment loss	—	(4)
Impairment loss recognised	104	289
Uncollectible amounts written off	(289)	—
At 31 December	104	289

At December 31, 2017, trade receivables of \$208,000 (2016: \$578,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of \$104,000 (2016: \$289,000) were recognised.

**(c) Trade receivables that are not impaired**

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2017 \$'000	2016 \$'000
Neither past due nor impaired	114,174	136,291
Less than 1 month past due	3,763	65,410
1 to 3 months past due	191	103
More than 3 months but less than 12 months past due	87	1
	4,041	65,514
	118,215	201,805

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

**(d) Non-current other receivables** represented deposits and prepayments for property rental and purchase of property, plant and equipment and intangible assets.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**16 Cash and cash equivalents and pledged deposits****(a) Pledged deposits**

The Group's pledged deposits represented deposits provided to local customs authority in the PRC.

**(b) Cash and cash equivalents and bank deposits:**

	2017 \$'000	2016 \$'000
Bank deposits within three months to maturity when placed	31,286	7,523
Cash at bank and on hand	62,651	77,912
Cash and cash equivalents in the consolidated cash flow statement	93,937	85,435
Bank deposits with more than three months to maturity when placed	21,409	39,675

Included in the above are \$27,199,000 (2016: \$47,953,000), which are placed at banks which have general security over the bank accounts with them for banking facilities granted to the Group.

**(c) Reconciliation of profit before taxation to cash generated from operations:**

	Note	2017 \$'000	2016 \$'000
Profit before taxation		30,355	34,063
Adjustments for:			
Interest income	4(a)	(855)	(488)
Compensation income	4(a)	—	(518)
Net loss on disposal of plant and equipment	4(b)	2,491	661
Finance costs	5(a)	729	806
Equity settled share-based payment expenses	5(b)	317	1,132
Amortisation	5(c)	910	518
Depreciation	5(c)	21,839	18,659
Foreign exchange loss/(gain)		11,420	(7,928)
Changes in working capital:			
(Increase)/decrease in inventories		(47,340)	41,254
Decrease/(increase) in trade and other receivables		91,182	(124,524)
(Decrease)/increase in trade and other payables		(50,741)	54,031
Increase/(decrease) in defined benefit obligations		91	(54)
Cash generated from operations		60,398	17,612



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**16 Cash and cash equivalents and pledged deposits** (continued)**(d) Reconciliation of liabilities arising from financing activities**

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

	<b>Bank loans</b> \$'000
<b>At January 1, 2017</b>	<b>89,249</b>
<b>Changes from financing cash flows:</b>	
Proceeds from bank loans	<b>585,466</b>
Repayment of bank loans	<b>(627,601)</b>
Interest paid	<b>(729)</b>
Total changes from financing cash flows	<b>(42,864)</b>
<b>Other change:</b>	
Interest expenses (note 5(a))	<b>729</b>
<b>At December 31, 2017</b>	<b>47,114</b>

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**17 Trade and other payables**

	2017 \$'000	2016 \$'000
Trade payables	107,267	157,462
Accrued charges and other payables	10,685	11,231
	<b>117,952</b>	168,693

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	2017 \$'000	2016 \$'000
Within 1 month	57,437	88,010
Over 1 to 3 months	49,810	68,821
Over 3 to 6 months	20	631
	<b>107,267</b>	157,462

**18 Bank loans**

	2017 \$'000	2016 \$'000
Current — Within 1 year or on demand (secured)	47,114	89,249

At December 31, 2017, the banking facilities of the Group were secured by trade receivables with the carrying amount of \$70,556,000 (2016: \$113,223,000). Such banking facilities amounted to \$70,000,000 (2016: \$90,000,000). The facilities were utilised to the extent of \$47,114,000 (2016: \$89,249,000). Certain bank loans were also secured by corporate guarantee given by the Company.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**19 Employees retirement schemes****(a) Defined benefit retirement plan**

The Group makes contributions to a defined benefit retirement plan for Korean employees working in Korea which covers 0.8% (2016: 0.4%) of the Group's employees. The plan is administered by a trustee, who is independent, with its assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The independent actuarial valuation of the plan at December 31, 2017 was prepared by qualified actuaries of Aon Hewitt Korea, who are Associates of the Society of Actuaries of the United States of America, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan are 74% (2016: 74%) covered by the plan assets held by the trustees at December 31, 2017.

The plan exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market risk.

**(i) The amounts recognised in the consolidated statement of financial position are as follows:**

	2017 \$'000	2016 \$'000
Present value of wholly or partly funded by obligation	855	691
Fair value of plan assets	(630)	(513)
	<b>225</b>	178

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay \$49,000 in contributions to the defined benefit retirement plan in 2018.

**(ii) Plan assets**

As at December 31, 2016 and 2017, the Group's liability under this plan is covered by deposits placed with several banks. There is no plan asset invested in the Company's own financial instruments or any property occupied or other assets used by the Group.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**19 Employees retirement schemes** (continued)**(a) Defined benefit retirement plan** (continued)**(iii) Movements in the present value of the defined benefit obligation**

	2017 \$'000	2016 \$'000
At 1 January	691	773
Remeasurements:		
— Actuarial losses arising from experience	10	16
— Actuarial (gains)/losses arising from changes in financial assumptions	(64)	1
	(54)	17
Benefits paid by the plan	(76)	(212)
Current service cost	180	115
Interest cost	21	20
Exchange difference	93	(22)
At 31 December	855	691

The weighted average duration of the defined benefit obligation is 11.6 years (2016: 13.0 years).

**(iv) Movements in plan assets**

	2017 \$'000	2016 \$'000
At 1 January	513	564
Group's contributions paid to the plan	121	169
Benefits paid by the plan	(76)	(212)
Interest income	13	14
Return on plan assets, excluding interest income	(10)	(6)
Exchange difference	69	(16)
At 31 December	630	513

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**19 Employees retirement schemes** (continued)**(a) Defined benefit retirement plan** (continued)**(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:**

	2017 \$'000	2016 \$'000
Current service cost	180	115
Net interest on net defined benefit liability	8	6
<b>Total amount recognised in profit or loss</b>	<b>188</b>	121
Actuarial (gains)/losses	(54)	17
Return on plan assets, excluding interest income	10	6
<b>Total amounts recognised in other comprehensive income</b>	<b>(44)</b>	23
<b>Total defined benefits costs</b>	<b>144</b>	144

The current service cost and the net interest on net defined benefit liability are recognised in administrative expenses in the consolidated statement of profit or loss.

**(vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:**

	2017	2016
Discount rate	3.13%	2.88%
Future salary increases	4.50%	5.00%

The below analysis shows how the defined benefit obligation would have increased/(decreased) as a result of 1% change in the significant actuarial assumptions:

	Increase in 1%		Decrease in 1%	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Discount rate	(164)	(94)	34	116
Future salary increases	20	111	(154)	(92)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**19 Employees retirement schemes** (continued)**(b) Defined contribution retirement plan**

The subsidiary in Hong Kong also operates in a Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately.

Cowell DG participates in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to profit or loss when incurred. The Group is required to contribute 16.5% (2016: 16.5% – 17.0%) of employees’ remuneration to these schemes during the year.

**20 Equity settled share-based transactions**

The Company has a share option scheme which was adopted on February 4, 2015 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at HK\$1 to subscribe for shares of the Company. The options vest after 0.86 to 3 years from the date of grant and are then exercisable within a period of 7 to 9.14 years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

**(a) The terms and conditions of the grants are as follows:**

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on October 30, 2015	4,000,000	2.17 years from the date of grant	10 years
Options granted to employees:			
– on October 30, 2015	8,600,000	2.17 years from the date of grant	10 years
– on April 21, 2016	1,500,000	0.86 year from the date of grant	10 years
– on June 20, 2016	400,000	3 years from the date of grant	10 years
– on June 20, 2017	400,000	3 years from the date of grant	10 years
Total share options granted	14,900,000		

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**20 Equity settled share-based transactions** (continued)**(b) The number and weighted average exercise prices of share options are as follows:**

	2017		2016	
	Weighted average exercise price	Number of options \$'000	Weighted average exercise price	Number of options \$'000
Outstanding at the beginning of the period	<b>HK\$3.74</b>	<b>9,400</b>	HK\$3.76	12,400
Granted during the period	<b>HK\$3.04</b>	<b>400</b>	HK\$3.45	1,900
Cancelled during the period	<b>HK\$3.68</b>	<b>(3,150)</b>	HK\$3.74	(4,900)
Outstanding at the end of the period	<b>HK\$3.68</b>	<b>6,650</b>	HK\$3.74	9,400
Exercisable at the end of the period	—	—	—	—

The options outstanding at December 31, 2017 had a weighted average exercise price of \$0.47 (2016: \$0.48) and a weighted average remaining contractual life of 7.96 years (2016: 8.85 years).

**(c) Fair value of share options and assumptions**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

**Fair value of share options and assumptions**

	2017	2016
Fair value at measurement date	<b>HK\$1.62</b>	HK\$1.71 — HK\$1.86
Share price	<b>HK\$3.04</b>	HK\$2.83 — HK\$3.28
Exercise price	<b>HK\$3.04</b>	HK\$2.92 — HK\$3.57
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option pricing model)	<b>77.77%</b>	85.26%
Option life (expressed as weighted average life used in the modelling under binomial option pricing model)	<b>10 years</b>	10 years
Expected dividends	—	—
Risk-free interest rate (based on yields of Hong Kong government bonds and treasury bills)	<b>1.325%</b>	1.312%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**21 Income tax in the consolidated statement of financial position****(a) Current taxation in the consolidated statement of financial position represents:**

	2017 \$'000	2016 \$'000
Provision for Hong Kong Profits Tax for the year	380	1,346
Provisional Profits Tax paid	(1,346)	(7,924)
	(966)	(6,578)
Provision for tax outside Hong Kong	5,104	6,164
	4,138	(414)
<b>Representing:</b>		
Tax recoverable	(1,221)	(6,981)
Tax payable	5,359	6,567
	4,138	(414)

**(b) Deferred tax assets and liabilities recognised:****(i) Movement of each component of deferred tax assets and liabilities**

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation \$'000	Defined benefit retirement plan liability \$'000	Provisions \$'000	Unrealised profits \$'000	Others \$'000	Total \$'000
At January 1, 2016	56	(155)	(93)	(143)	107	(228)
Charged/(credited) to profit or loss (note 6(a))	194	4	32	(124)	6	112
Credited to reserves (note 9)	—	(5)	—	—	—	(5)
Exchange adjustments	—	5	—	—	(3)	2
At December 31, 2016 and January 1, 2017	250	(151)	(61)	(267)	110	(119)
(Credited)/charged to profit or loss (note 6(a))	(664)	(26)	(7)	(34)	17	(714)
Charged to reserves (note 9)	—	10	—	—	—	10
Exchange adjustments	—	(20)	(2)	—	13	(9)
At December 31, 2017	(414)	(187)	(70)	(301)	140	(832)



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**21 Income tax in the consolidated statement of financial position** (continued)**(b) Deferred tax assets and liabilities recognised:** (continued)**(ii) Reconciliation to the consolidated statement of financial position**

	2017 \$'000	2016 \$'000
Net deferred tax asset recognised in the consolidated statement of financial position	(832)	(329)
Net deferred tax liability recognised in the consolidated statement of financial position	—	210
	<b>(832)</b>	<b>(119)</b>

**(c) Deferred tax liabilities not recognised**

Under the CIT and its implementation rules, a withholding tax at 10%, unless reduced by a tax treaty or arrangement, is applied on dividends received by non-PRC-resident corporate investors from PRC-resident enterprises, such as the Company's PRC subsidiary. Undistributed earnings prior to January 1, 2008 are exempt from such withholding tax. Under the China-Hong Kong Tax Arrangement and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding tax rate of 5%. The Group has determined that it qualifies for the 5% withholding tax rate.

As at December 31, 2017, temporary differences relating to the undistributed profits of the Group's PRC subsidiary amounted to \$101,820,000 (2016: \$81,249,000). Deferred tax liabilities of \$5,091,000 (2016: \$4,062,000) have not been recognised in respect of these undistributed profits as the Company controls the dividend policy of the subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**22 Capital, reserves and dividends****(a) Movements in components of equity**

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual component of equity between the beginning and the end of the year are set out below:

**Company**

	Note	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Capital redemption reserve \$'000	Other reserve \$'000	(Accumulated losses)/ retained profits \$'000	Total \$'000
<b>At January 1, 2016</b>		3,326	66,398	2,316	7	707	(24,727)	48,027
<b>Changes in equity for 2016:</b>								
Loss for the year and total comprehensive income		—	—	—	—	—	(1,064)	(1,064)
Equity settled share-based transactions		—	—	1,132	—	—	—	1,132
<b>At December 31, 2016 and January 1, 2017</b>	27	<b>3,326</b>	<b>66,398</b>	<b>3,448</b>	<b>7</b>	<b>707</b>	<b>(25,791)</b>	<b>48,095</b>
<b>Changes in equity for 2017:</b>								
Profit for the year and total comprehensive income		—	—	—	—	—	32,008	32,008
Dividends approved in respect of the previous year		—	(8,548)	—	—	—	—	(8,548)
Equity settled share-based transactions		—	—	317	—	—	—	317
Dividends declared in respect of the current year		—	—	—	—	—	(1,840)	(1,840)
<b>At December 31, 2017</b>	27	<b>3,326</b>	<b>57,850</b>	<b>3,765</b>	<b>7</b>	<b>707</b>	<b>4,377</b>	<b>70,032</b>

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**22 Capital, reserves and dividends** (continued)**(b) Dividends****(i) Dividends payable to equity shareholders of the Company attributable to the year**

	2017 \$'000	2016 \$'000
Interim dividend declared and paid of HK1.7179 cents per ordinary share (2016: Nil)	1,840	—
Final dividend proposed after the end of the reporting period of HK5.1553 cents per ordinary share (2016: HK7.9770 cents per ordinary share)	5,524	8,548
	<b>7,364</b>	8,548

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

**(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year.**

	2017 \$'000	2016 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK7.9770 cents per share (2016: Nil)	8,548	—

**(c) Share capital****Authorised and issued share capital**

	2017		2016	
	Number of shares '000	Amount \$'000	Number of shares '000	Amount \$'000
<b>Authorised:</b>				
Ordinary shares of \$0.004 each	10,000,000	40,000	10,000,000	40,000
<b>Ordinary shares, issued and fully paid:</b>				
At 1 January and 31 December	831,519	3,326	831,519	3,326

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**22 Capital, reserves and dividends** (continued)**(d) Nature and purpose of reserves****(i) Share premium and capital redemption reserve**

The application of the share premium and the capital redemption reserve of the Group and the Company is governed by the Companies Law of the Cayman Islands.

**(ii) Capital reserve**

The capital reserve comprises the following:

- The portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(h)(iii); and
- The contribution from one of the substantial shareholders of \$2,040,000 to compensate part of the listing expenses incurred in 2015.

**(iii) Other reserve**

The Company's other reserve represents the fair value of the estimated number of unexercised share options granted to directors and employees of the Group in 2010. The share options were cancelled without any exercise in 2012.

The Group's other reserve comprises the Company's other reserve and the difference between the consideration paid by the Company to acquire non-controlling interests in Cowell Electronics Co., Ltd. and its carrying amount on the date of acquisition in 2012.

**(iv) General reserve fund**

According to the PRC laws applicable to wholly-owned foreign investment enterprises, the PRC subsidiary of the Group is required to set up a general reserve fund and appropriate at least 10% of their annual net profits after taxation, as determined under PRC accounting regulations, to the general reserve fund until the balance of the fund equals to 50% of the respective enterprise's authorised capital. This fund can be used to make good losses and to convert into paid-up capital.

**(v) Exchange reserve**

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than United States dollars. The reserve is dealt with in accordance with the accounting policies set out in note 1(r).

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**22 Capital, reserves and dividends** (continued)**(e) Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt plus unaccrued proposed dividend as total debt less cash and cash equivalents, bank deposits and pledged deposits.

The Group's strategy was to maintain a relatively low net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

	2017 \$'000	2016 \$'000
Bank loans (note 18)	47,114	89,249
Add: Proposed dividend	5,524	8,548
Less: Cash and cash equivalents	(93,937)	(85,435)
Bank deposits	(21,409)	(39,675)
Pledged deposits	(3,427)	(3,193)
Adjusted net cash	(66,135)	(30,506)
Total equity	333,496	297,363
Less: Proposed dividends	(5,524)	(8,548)
Adjusted capital	327,972	288,815
Adjusted net debt-to-capital ratio	N/A	N/A

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 23 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy of monitoring the exposures to these credit risks on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. In respect of deposits with banks, the Group only places deposits with major financial institutions which the Group's management believes are of high credit rating.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 87.8% (2016: 86.1%) of the trade receivables was due from the Group's largest customer, and 99.9% (2016: 100.0%) of trade receivables were due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position, after deducting any impairment provisions. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

#### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to the approval by the parent company's board in respect of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**23 Financial risk management and fair values** (continued)**(b) Liquidity risk** (continued)

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	2017	
	Contractual undiscounted cash outflow Within 1 year or on demand \$'000	Carrying amount \$'000
Trade and other payables	117,952	117,952
Bank loans	47,114	47,114
	<b>165,066</b>	<b>165,066</b>

	2016	
	Contractual undiscounted cash outflow Within 1 year or on demand \$'000	Carrying amount \$'000
Trade and other payables	168,693	168,693
Bank loans	89,249	89,249
	<b>257,942</b>	<b>257,942</b>

As shown in the above analysis, bank loans of the Group amounting to \$47,114,000 (2016: \$89,249,000) were due to be repaid during 2017. The short-term liquidity risk inherent in this contractual maturity has been addressed at the time the loans were drawn and are accounted for in the Group's cash flow forecasts.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**23 Financial risk management and fair values** (continued)**(c) Interest rate risk**

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

**(i) Interest rate profile**

	2017		2016	
	Effective interest rate %	Amount \$'000	Effective interest rate %	Amount \$'000
<b>Variable rate borrowings:</b>				
Bank loans	1.15	47,114	1.32	89,249

**(ii) Sensitivity analysis**

At December 31, 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately \$393,000 (2016: \$745,000). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period.

**(d) Currency risk**

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HK\$") and KRW.

As the HK\$ is pegged to the US\$, the Group does not expect any significant movements in the US\$/HK\$ exchange rate.

The Group's foreign operations do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the foreign operations for use within the respective operations.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**23 Financial risk management and fair values** (continued)**(d) Currency risk** (continued)**(i) Exposure to currency risk**

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in US\$, translated using spot rate at the year end date. Differences resulting from the translation of financial statements of operations with functional currency other than United States dollars into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in US\$)					
	2017			2016		
	US\$ \$'000	KRW \$'000	HK\$ \$'000	US\$ \$'000	KRW \$'000	HK\$ \$'000
Trade and other receivables	120,039	—	—	203,332	—	—
Bank deposits	—	16,741	—	—	14,675	—
Cash and cash equivalents	46,698	—	6,072	61,512	—	16,839
Trade and other payables	(108,708)	—	—	(151,811)	—	—
Bank loans	(47,114)	—	—	(89,249)	—	—
Net exposure arising from recognised assets and liabilities	10,915	16,741	6,072	23,784	14,675	16,839

**(ii) Sensitivity analysis**

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HK\$ and the US\$ would be materially unaffected by any changes in movement in value of the US\$ against other currencies.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits \$'000
KRW	5%	837	5%	734
	(5)%	(837)	(5)%	(734)

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**23 Financial risk management and fair values** (continued)**(d) Currency risk** (continued)**(ii) Sensitivity analysis** (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated to the US\$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2016.

**(e) Fair values**

The directors consider that the carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at the end of the reporting period.

**24 Commitments****(a) Capital commitments outstanding at December 31, 2017 not provided for in the financial statements were as follows:**

	2017 \$'000	2016 \$'000
Contracted for	896	844

**(b) At December 31, 2017, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:**

	2017 \$'000	2016 \$'000
Within 1 year	2,559	2,026
After 1 year but within 5 years	8,624	6,152
After 5 years	14,678	13,826
	<b>25,861</b>	22,004

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to eighteen years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 25 Contingent liabilities

#### Financial guarantees issued

As at the end of the reporting period, the Company has issued guarantees to bank to secure banking facilities granted by banks to certain subsidiaries amounting to \$70,000,000 (2016: \$90,000,000). The Company did not recognise any deferred income in respect of the guarantees as the fair values could not be reliably measured and its transaction price was \$Nil. Accordingly, the guarantees have not been accounted for as financial liabilities and measured at fair value.

As at the end of the reporting period, the directors do not consider it to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the Company under the guarantees issued is the amount of banking facilities drawn down by the relevant subsidiaries amounting to \$47,114,000 (2016: \$89,249,000).

### 26 Material related party transactions

#### (a) Key management personnel remuneration

All members of key management personnel are the directors of the Company, and their remuneration is disclosed in note 7.

#### (b) Consultancy fee payable to a substantial shareholder

In April 2016, the Group entered into a consulting agreement at the annual rate of US\$380,000 in respect of consultancy service provided by a substantial shareholder. The amount of consultancy service fee incurred during the year ended December 31, 2017 is \$380,000 (2016: \$264,000). No amounts were outstanding as at December 31, 2017.

#### (c) Applicability of the Listing Rules relating to connected transactions

The related party transaction in respect of note 26(b) above constitutes connected transactions as defined in Chapter 14A of the Listing Rules. However the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimis threshold under Rule 14A.76(1).

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 27 Company-level statement of financial position

	2017 \$'000	2016 \$'000
<b>Non-current assets</b>		
Intangible assets	1,534	1,852
Interests in subsidiaries	19,231	844
	<b>20,765</b>	2,696
<b>Current assets</b>		
Other receivables	515	245
Bank deposits	16,741	39,675
Cash and cash equivalents	32,199	17,532
	<b>49,455</b>	57,452
<b>Current liability</b>		
Other payables	188	12,053
<b>Net current assets</b>	<b>49,267</b>	45,399
<b>Total assets less current liabilities</b>	<b>70,032</b>	48,095
<b>NET ASSETS</b>	<b>70,032</b>	48,095
<b>CAPITAL AND RESERVES</b>		
Share capital	3,326	3,326
Reserves	66,706	44,769
<b>TOTAL EQUITY</b>	<b>70,032</b>	48,095

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017**

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
IFRS 9, <i>Financial instruments</i>	January 1, 2018
IFRS 15, <i>Revenue from contracts with customers</i>	January 1, 2018
Amendments to IFRS 2, <i>Share-based payment. Classification and measurement of share-based payment transactions</i>	January 1, 2018
IFRIC 22, <i>Foreign currency transactions and advance consideration</i>	January 1, 2018
IFRS 16, <i>Leases</i>	January 1, 2019
IFRIC 23, <i>Uncertainty over income tax treatments</i>	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended June 30, 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017 (continued)

#### IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018 on a retrospective basis.

Expected impacts of the new requirements on the Group's financial statements are as follows:

#### (a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI). The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of IFRS9.

#### (b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. While the Group is in the process of assessing the extent of impact on the impairment provisions under IFRS 9, it is expected that the application of the expected credit loss model may result in earlier recognition of credit losses which are not yet incurred in relation the Group's trade and other receivables. The Group anticipate that the adoption of IFRS 9 would not have material impact on the results and financial position of the Group based on management's assessment performed.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

**28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017** (continued)**IFRS 15, Revenue from contracts with customers**

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which may be affected:

**(a) Timing of revenue recognition**

The Group's revenue recognition policies are disclosed in note 1(q).

Under IFRS15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- (a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from construction contracts.

**(b) Sales with a right of return**

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return.

However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2017 (continued)

#### IFRS 16, Leases

IFRS 16 is not expected to impact significantly on the way that lessors accounts for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 24(b), at December 31, 2017 the Group’s future minimum lease payments under non-cancellable operating leases amount to \$25,861,000, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.



## Five-Year Financial Summary

	2013 (in US\$000)	2014 (in US\$000)	2015 (in US\$000)	2016 (in US\$000)	2017 (in US\$000)
Revenue	813,936	886,467	980,203	914,545	<b>740,734</b>
Gross profit	103,247	112,103	136,888	76,146	<b>74,227</b>
Gross profit margin	12.7%	12.6%	14.0%	8.3%	<b>10.0%</b>
Operating profit	68,985	70,686	78,643	35,416	<b>31,113</b>
Operating margin	8.5%	8.0%	8.0%	3.8%	<b>4.2%</b>
Profit attributable to equity holders of the Company	50,242	53,244	60,680	28,495	<b>27,619</b>
Bank balance and cash	45,220	82,224	79,056	85,435	<b>93,937</b>
Borrowings	123,809	91,939	40,822	89,249	<b>47,114</b>
Total assets	400,223	505,851	452,545	562,260	<b>504,146</b>
Total liabilities	260,360	313,419	166,890	264,897	<b>170,650</b>
Total equity	139,863	192,432	285,655	297,363	<b>333,496</b>

Note: The figures for the year ended December 31, 2013 are extracted from the Prospectus.

## Definitions

“Articles of Association”	the articles of association of the Company (as amended from time to time), conditionally adopted on March 10, 2015
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bai Shi”	Bai Shi Electronics Limited (百世電子有限公司), a limited liability company incorporated in Hong Kong on June 11, 2008, which is wholly owned by Mr. Lee Nam Oh (a brother-in-law of the substantial shareholder, Mr. Kwak Joung Hwan)
“Board”	the board of Directors
“Company”	Cowell e Holdings Inc., an exempted company incorporated in the Cayman Islands with limited liability on November 28, 2006
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Cowell China” or “Dongguan Cowell”	Dongguan Cowell Optic Electronics Co., Ltd. (東莞高偉光學電子有限公司), a wholly foreign-owned enterprise incorporated in the PRC on February 5, 2002, which is a wholly owned subsidiary of Cowell Hong Kong
“Cowell Hong Kong”	Cowell Optic Electronics Limited (高偉光學電子有限公司), a limited liability company incorporated in Hong Kong on March 6, 2002, which is a wholly owned subsidiary of the Company
“Cowell Korea”	Cowell Electronics Co., Ltd. (formerly known as Cowell World Optic Co., Ltd. and World Optic Co., Ltd.), a stock corporation incorporated under the laws of Korea on January 29, 1997, which is a wholly owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Global Offering”	has the meaning ascribed to it in the Prospectus
“Group”	the Company and its subsidiaries
“Hahn & Co. Eye”	Hahn & Company Eye Holdings Co., Ltd., a company incorporated in Korea on July 15, 2011
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	March 31, 2015, on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“PRC”	People’s Republic of China
“Prospectus”	the prospectus of the Company dated March 19, 2015
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholder(s)”	holder(s) of Shares
“Shares”	ordinary share(s) of US\$0.004 each in the share capital of the Company
“US\$”	U.S. dollars, the lawful currency of the United States of America