

# ANNUAL REPORT 2017

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Sky Light Holdings Limited  
天彩控股有限公司

Stock Code **3882**

Incorporated in the Cayman Islands with limited liability



# ANNUAL REPORT 2017







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# Financial Highlights

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000	Change
REVENUE	<b>735,780</b>	1,339,611	-45.1%
(LOSS)/PROFIT FOR THE YEAR	<b>(485,300)</b>	53,728	-1,003.3%
(LOSS)/PROFIT DIVIDED BY BUSINESS UNIT			
– Loss for the year from ION360 business	<b>(401,572)</b>	(19,880)	1,920.0%
– Loss for the year from ODM/JDM business	<b>(83,728)</b>	73,608	-213.7%
	<b>(485,300)</b>	53,728	-1,003.3%
FURTHER BREAKDOWN – (LOSS)/PROFIT ATTRIBUTABLE TO ODM/JDM BUSINESS			
– Impairment loss of long term investments and other receivable from ODM/JDM business	<b>(67,075)</b>	-	Not applicable
– Operating loss from ODM/JDM business	<b>(16,653)</b>	73,608	-122.6%
	<b>(83,728)</b>	73,608	-213.7%

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Tang Wing Fong Terry (*Chairman*)

Mr. Wu Yongmou

Mr. Lu Yongbin

### Non-executive Directors

Professor Huang Erwin Steve

Ms. Tang Kam Sau

### Independent Non-executive Directors

Mr. Tse Yat Hong (Appointed on 5 December 2017)

Mr. Wong Kee Fung Kenneth (Passed away on 30 October 2017)

Dr. Cheung Wah Keung

Mr. Chan Tsu Ming Louis

## COMMITTEES OF THE BOARD

### Audit Committee

Mr. Tse Yat Hong (*Chairman*) (appointed on 5 December 2017)

Mr. Wong Kee Fung Kenneth (Passed away on 30 October 2017)

Dr. Cheung Wah Keung

Mr. Chan Tsu Ming Louis

### Remuneration Committee

Mr. Tse Yat Hong (*Chairman*) (appointed on 5 December 2017)

Mr. Wong Kee Fung Kenneth (Passed away on 30 October 2017)

Mr. Tang Wing Fong Terry

Mr. Chan Tsu Ming Louis

### Nomination Committee

Mr. Tang Wing Fong Terry (*Chairman*)

Mr. Tse Yat Hong (Appointed on 5 December 2017)

Mr. Wong Kee Fung Kenneth (Passed away on 30 October 2017)

Mr. Chan Tsu Ming Louis

## AUTHORIZED REPRESENTATIVES

Mr. Tang Wing Fong Terry

Ms. Ho Wing Tsz Wendy

## JOINT COMPANY SECRETARIES

Mr. Lu Yongbin

Ms. Ho Wing Tsz Wendy

## REGISTERED OFFICE

P. O. Box 10008, Willow House, Cricket Square

Grand Cayman KY1-1001, Cayman Islands

## HEAD OFFICE, HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("CHINA" OR THE "PRC")

No. 1, No. 2, No. 5 and No. 6 Building

Jinbi Industrial Zone

Huangtian Community, Bao'an District

Shenzhen

PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1009 Kwong Sang Hong Centre

151-153 Hoi Bun Road

Kwun Tong

Kowloon

Hong Kong

## AUDITORS

Ernst & Young

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

## HONG KONG LEGAL ADVISER

Mayer Brown JSM

16th-19th Floors, Prince's Building

10 Charter Road

Central

Hong Kong

## CAYMAN ISLANDS PRINCIPAL REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited

P. O. Box 10008, Willow House, Cricket Square

Grand Cayman KY1-1001, Cayman Islands

# Corporate Information

## HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited  
13th Floor Standard Chartered Bank Building  
4–4A Des Voeux Road Central  
Hong Kong

Hongkong and Shanghai Banking Corporation Limited  
Level 10 HSBC Main Building  
1 Queen's Road Central  
Hong Kong

## STOCK CODE

3882

## COMPANY WEBSITE ADDRESS

[www.sky-light.com.hk](http://www.sky-light.com.hk)

# Chairman's Statement

To all shareholders,

First of all, on behalf of the Board of Directors (the "Directors") (the "Board"), thank you for your continued care and support for Sky Light Holdings Limited ("Sky Light" or the "Company" or "our Company") and its subsidiaries (together, the "Group" or "our Group" or "we"), encouraging us through a key year of strategic transition and improvement.

Sky Light experienced a challenging year in 2017, due to the unexpected delay in the shipment of certain home imaging products and the poor performance in the sales of ION360 business. The Group's total revenue decreased to approximately HK\$735.8 million (2016: approximately HK\$1,339.6 million) for the year ended 31 December 2017 ("FY2017"), representing a decrease of approximately 45.1% compared to the year ended 31 December 2016 ("FY2016"). For the ION360 business, we invested heavily in marketing and research and development but with much less results than expected. Also, in conjunction with the impairment loss of goodwill and intangible assets, the Group recorded a significant loss of approximately HK\$401.6 million for the ION360 business. Additionally, we recorded loss of approximately HK\$83.7 million for the ODM/JDM business, including approximately HK\$67.1 million from impairment loss of long term investments and other receivable from ODM/JDM business.

Stepping into 2018, Sky Light is expecting a year full of opportunities. We believe that the Group has many prospects in the smart imaging industry and is well positioned to compete in the global market. We believe the opportunities of imaging products/accessories for home security and car industries are tremendous, Sky Light will focus on developing business on these two sectors.

Firstly, we will continue to expand our smart manufacturing efforts by leveraging research and development expertise and manufacturing excellence, to fulfill customers' market needs, to introduce more smart imaging products to the market, such as camera flood light, security light, doorbell camera, dash camera, and cameras with advanced features, such as image analytics, voice control, etc.

Secondly, in order to serve small to medium size customers and become a one-stop imaging solution provider, we are developing a self-owned cloud and intend to offer an online cloud management service paired with our home security cameras to our corporate customers.

Thirdly, we will strengthen our customer base on a worldwide basis and increase our presence in Mainland China. Up to the date of this report, we have developed a much more robust market portfolio which broadly covers many customers in the United States, the United Kingdom, the European Union, Japan, Mainland China, etc. We believe that we are on the right track to capitalize our strength and grow our business. The diversification strategy will bring positive impact on the results of the Company in the near future.

Finally, we intend to dispose the ION360 business as and when suitable opportunity arises. This then allows us to optimize the organization structure and lower the operation cost so that the impact on the Group's financial results will be under control and minimized.

## APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude for the support of all the business partners, customers and shareholders, as well as the contributions of the management team and all staff of the Group for the past many years. We believe that, with everybody's dedication and efforts, the Group will be well positioned to achieve further success.

**Tang Wing Fong Terry**

*Chairman*

Hong Kong, 28 March 2018

# Management Discussion and Analysis

## Business Review

The Group is principally engaged in the sales, development and manufacturing of home surveillance cameras, 360-degree cameras, action cameras and related accessories and other digital imaging products such as car camcorders, police cameras and other imaging products for various purposes. In particular, the Group is one of the key digital imaging device and solutions providers for the home surveillance camera industry. Leveraging its substantial experience spanning a diverse range of digital imaging products, the Group differentiates itself from other manufacturers by offering design-driven joint design manufacturing (“**JDM**”) and original design manufacturing (“**ODM**”) solutions to customers.

Since its establishment, the Group’s core operations have mainly focused on imaging products. The Group has successfully shifted from positioning as a traditional imaging products manufacturer to an action camera vendor, and further introduced home surveillance cameras starting in 2014. It has successfully launched 360-degree cameras in 2016 and unveiled its ION360 brand for its own 360-degree cameras worldwide in 2017.

After the acquisition of iON Worldwide INC. together with its subsidiaries (“iON Group”) in November 2016, the Group has strategically separated its business into two divisions: ODM/JDM business and ION360 business. The operation results of ODM/JDM business and ION360 business are set out in the next page 7:



# Management Discussion and Analysis

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
<b>ODM/JDM BUSINESS</b>		
REVENUE	<b>712,338</b>	1,333,232
Cost of sales	<b>(523,470)</b>	(1,002,596)
Gross profit	<b>188,868</b>	330,636
Other income and gains	<b>15,198</b>	27,720
Selling and distribution expenses	<b>(26,408)</b>	(33,552)
Administrative expenses	<b>(88,054)</b>	(108,696)
Research and development expenses	<b>(81,083)</b>	(121,194)
Other expenses	<b>(71,197)</b>	(6,931)
Finance costs	<b>(1,409)</b>	(1,935)
Share of losses of associates	<b>(3,367)</b>	–
(LOSS)/PROFIT BEFORE TAX	<b>(67,452)</b>	86,048
Income tax expense	<b>(16,276)</b>	(12,440)
<b>(LOSS)/PROFIT FOR THE YEAR FROM ODM/JDM BUSINESS</b>	<b>(83,728)</b>	73,608
<b>ION360 BUSINESS</b>		
REVENUE	<b>23,442</b>	6,379
Cost of sales	<b>(50,990)</b>	(11,608)
Gross loss	<b>(27,548)</b>	(5,229)
Other income and gains	<b>151</b>	821
Selling and distribution expenses	<b>(100,794)</b>	(2,221)
Administrative expenses	<b>(55,440)</b>	(5,829)
Research and development expenses	<b>(101,465)</b>	(11,868)
Other expenses	<b>(117,486)</b>	(84)
LOSS BEFORE TAX	<b>(402,582)</b>	(24,410)
Income tax credit	<b>1,010</b>	4,530
<b>LOSS FOR THE YEAR FROM ION360 BUSINESS</b>	<b>(401,572)</b>	(19,880)
<b>TOTAL (LOSS)/PROFIT FOR THE YEAR</b>	<b>(485,300)</b>	53,728

# Management Discussion and Analysis

## ION360 business

For FY2017, the Group recorded a turnover of approximately HK\$23.4 million, primarily derived from sale of legacy inventories, in the ION360 business (FY2016: approximately HK\$6.4 million). The increase was mainly attributable to the ION360 business only operated for two months in 2016 since our acquisition in November 2016.

Due to the ION360 business' disappointing operating results and the Group's strategy to manage its finances in a cautious and prudent manner, the Company intends to dispose the ION360 business as and when suitable opportunity arises.

## ODM/JDM business

In 2017, the Group's turnover from the ODM/JDM business significantly declined by approximately HK\$620.9 million to approximately HK\$712.3 million from approximately HK\$1,333.2 million for FY2016. The decline was primarily caused by the substantial reduction in the shipment volume of home surveillance cameras and digital imaging products to the Group's key customers as compared with FY2016.

The revenue from the action cameras and accessories business of the ODM/JDM business during FY2017 decreased in line with the slack of the action cameras sector.

Home surveillance cameras of the Group's ODM/JDM business have become its major revenue source following the significant decline in revenue from action cameras and accessories, and contributed approximately 50.5% of the Group's total revenue for FY2017. The revenue of home surveillance cameras also decreased substantially from approximately HK\$792.2 million for FY2016 to approximately HK\$371.9 million for FY2017 primarily due to the gradual phasing out of the old models from the market, while the sales of the new models had either just commenced at the end of FY2017 or scheduled to debut in the first half of 2018. Meanwhile it is expected that the sales of new models to existing and new customers will steadily pick up in the first half of 2018 or later.

The digital imaging business recorded a decrease of approximately 25.9% in sales, mainly owing to the drop in shipments of police cameras to a leading police equipment provider in the United States ("US").

## Prospects

Based on constant evaluation of the macro economy and the available data over the past two years, China appears to be on its way of economic growth recovery. This trend, together with new measures as well as tax reform coming into effect in the US, is expected to give recovery momentum to the US economy, thereby facilitating the economic growth of other regions around the world. To seize the opportunities presented by this global momentum, the Group will strengthen its customer base on a worldwide basis and increase its presence in Mainland China. Up to the date of this report, the Group has developed a much more robust market portfolio which broadly covers customers in the US, the United Kingdom, the European Union, Japan, Mainland China, etc. The Group believes that it is on the right track to capitalise on its strength and grow its business. It is expected that the diversification will bring positive impact on the results of the Company in the near future.

The demand for more advanced cloud applications, lower power consumption, higher definition, stronger interaction and better storage and connectivity have contributed to the remarkable market growth. The Group continues to expand its smart manufacturing efforts by leveraging its research and development expertise and manufacturing excellence to fulfill customers' market needs. It also targets to introduce various smart imaging products to the market, such as camera floodlights, security lights, doorbell cameras, dash cameras, and cameras with advanced features such as image analytics and voice controls.

On top of the home surveillance cameras, the Group is developing a self-owned cloud service and intends to offer an online cloud management service to pair with its home surveillance cameras to corporate customers. The Group believes the camera-plus-cloud total solution will enable it to gain more sales orders and improve customer's satisfaction.

# Management Discussion and Analysis

The Group expects its home surveillance cameras will contribute a larger share of its revenue in the next few years. Capitalising on its well-defined strategy and solid business foundation, the management has confidence in the Group's future prospects and believes that the Group will improve its result and create value for its shareholders ("Shareholders"). The Group aims to maintain its market position and expand its product portfolio. Thus, the Group continues its efforts to increase market share and deliver high-quality products and solutions to customers by pursuing the following strategies:

- Continue to develop innovative products by further investing in product planning and research and development capabilities
- Strengthen customer relationships and further expand its customer base
- Increase its presence in Mainland China
- Improve operation and production efficiencies and optimise the organisational structure

## Financial Review

### Turnover

The Group's products mainly consist of the following three categories: (i) home surveillance cameras, (ii) digital imaging (including 360-degree cameras) products, and (iii) action cameras and accessories. It generates revenue predominantly from sales of these products, as well as from sales of other electronic products or services such as tooling fees and research and development ("R&D") service associated with products that it manufactures for customers. It expects the contribution from home surveillance cameras will increase in the next few years. The following tables set out the breakdown of the revenue from sales of major products by product type for the periods indicated:

	2017 HK\$'000		2016 HK\$'000		
		% of total revenue		% of total Revenue	change
<b>ODM/JDM BUSINESS</b>					
Home surveillance cameras	371,853	50.5%	792,215	59.1%	-53.1%
Digital imaging products	247,293	33.6%	333,647	24.9%	-25.9%
Action camera and accessories	57,324	7.8%	186,958	14.0%	-69.3%
Others	35,868	4.9%	20,412	1.5%	75.7%
SUB-TOTAL	712,338	96.8%	1,333,232	99.5%	-46.6%
<b>ION360 BUSINESS</b>	23,442	3.2%	6,379	0.5%	267.5%
TOTAL	735,780	100.0%	1,339,611	100.0%	-45.1%

# Management Discussion and Analysis

For FY2017, the Group recorded a turnover of approximately HK\$23.4 million from the ION360 business (FY2016: approximately HK\$6.4 million). The increase was mainly attributable to ION360 business started its operation since November 2016.

For FY2017, the Group recorded a turnover of approximately HK\$712.3 million from the ODM/JDM business (FY2016: approximately HK\$1,333.2 million), representing a significant decrease of approximately 46.6% as compared to FY2016. This decrease was mainly attributable to the significant reduction in the shipment units of home surveillance cameras and digital imaging products.

The Group sells its products mainly to customers in the US and the European Union and expects the US and the European Union market will continue to account for majority of its revenue in the foreseeable future. The significant decrease in the sales in the US and the European Union was due to the decrease in the sales from home surveillance cameras to the Group's key customers, which are located in the US and the European Union. The following table sets out the breakdown of revenue by location of customers for the periods indicated:

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
United States of America	<b>451,914</b>	935,702
Mainland China	<b>101,743</b>	115,486
European Union	<b>156,909</b>	229,652
Hong Kong	<b>12,012</b>	44,136
Other countries and areas	<b>13,202</b>	14,635
	<b>735,780</b>	1,339,611

## Cost of sales

Cost of sales represents costs and expenses directly attributable to the manufacture of the Group's products which comprise (i) raw materials, components and parts, including, among others, key components such as digital signal processors, lenses and sensors, (ii) direct labour, and (iii) production overhead, including mainly depreciation of production equipment and indirect labour.

For FY2017, cost of sales of the Group amounted to approximately HK\$574.5 million (FY2016: approximately HK\$1,014.2 million), representing a decrease of approximately 43.4% as compared to FY2016, and amounted to approximately 78.1% (FY2016: approximately 75.7%) of its turnover during the year. This decrease was mainly attributable to a substantial decrease in consumption of the raw materials, components and parts as a result of significant reduction in the shipment units of home surveillance cameras and digital imaging products and strict cost control applied by the Group during the year.

# Management Discussion and Analysis

## Gross profit and gross profit margin

<b>ION360 business</b>	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Revenue	<b>23,442</b>	6,379
Cost of sales	<b>(50,990)</b>	(11,608)
Gross profit	<b>(27,548)</b>	(5,229)
Gross profit margin	<b>-117.5%</b>	-82.0%

The Group's ION360 business recorded a negative gross profit margin due to the majority of the revenue was derived from sale of legacy inventories at discounted prices below cost.

<b>ODM/JDM business</b>	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Revenue	<b>712,338</b>	1,333,232
Cost of sales	<b>(523,470)</b>	(1,002,596)
Gross profit	<b>188,868</b>	330,636
Gross profit margin	<b>26.5%</b>	24.8%

The Group recorded a gross profit of approximately HK\$188.9 million from the ODM/JDM business for FY2017 (FY2016: approximately HK\$330.6 million), representing a decrease of approximately 42.9% as compared to FY2016. The gross profit margin increased slightly from approximately 24.8% for FY2016 to approximately 26.5% for FY2017. The increase was mainly due to revenue from provision of R&D support service accounted for a higher portion of the Group's total revenue.

### Other income and gains

Other income and gains include mainly (i) bank interest income; (ii) government grants, which mainly consist of rewards and subsidies for research activities granted by the local government with no unfulfilled conditions or contingencies; and (iii) exchange gains arising mainly from fluctuation of Renminbi ("RMB") against US dollar ("US\$") between the invoice and settlement dates of its sales and purchases, and from translation of its US\$-denominated trade payables and receivables.

For FY2017, other income and gains of the Group decreased significantly by approximately HK\$13.2 million to approximately HK\$15.3 million as compared to FY2016, which was primarily attributable to a decrease of approximately HK\$10.5 million in exchange gains due to appreciation of RMB against US\$ during the year.



# Management Discussion and Analysis

## Selling and distribution expenses

Expense by business unit	2017 HK\$'000	2016 HK\$'000	Change
Attributable to ION360 business	100,794	2,221	4,438.2%
Attributable to ODM/JDM business	26,408	33,552	-21.3%
Total	127,202	35,773	255.6%

Selling and distribution expenses include mainly (i) salaries and benefits of its sales and marketing staff; (ii) transportation costs for delivery of products; (iii) marketing, exhibition and advertising costs; and (iv) entertainment expenses relating to its sales and marketing activities.

For FY2017, selling and distribution expenses of the Group's ION360 business soared to approximately HK\$100.8 million from approximately HK\$2.2 million for FY2016. The increase was mainly attributable to the launch and promotion of the ION360 brand in 2017.

For FY2017, selling and distribution expenses of the Group's ODM/JDM business decreased approximately 21.3% to approximately HK\$26.4 million from approximately HK\$33.6 million for FY2016. The decrease in was in line with the decrease in revenue from the Group's ODM/JDM business.

## Administrative expenses

Expense by business unit	2017 HK\$'000	2016 HK\$'000	Change
Attributable to ION360 business	55,440	5,829	851.1%
Attributable to ODM/JDM business	88,054	108,696	-19.0%
Total	143,494	114,525	25.3%

Administrative expenses include mainly (i) salaries and benefits of the Group's management, administrative and finance staff; (ii) rental and office expenses; (iii) professional fees; (iv) other taxes and levies payable to government authorities; and (v) entertainment expenses.

For FY2017, administrative expenses of the Group's ION360 business soared to approximately HK\$55.4 million from approximately HK\$5.8 million for FY2016. The increase was mainly attributable to (i) ION360 business started its operation since November 2016, and (ii) the average headcounts in the ION360 business almost doubled in 2017.

For FY2017, administrative expenses of the Group's ODM/JDM business decreased by approximately 19.0% to approximately HK\$88.1 million (FY2016: approximately HK\$108.7 million). The decrease was primarily due to the Group's strict cost control policy.

# Management Discussion and Analysis

## Research and development costs

Expense by business unit	2017 HK\$'000	2016 HK\$'000	Change
Attributable to ION360 business	101,465	11,868	754.9%
Attributable to ODM/JDM business	81,083	121,194	-33.1%
Total	182,548	133,062	37.2%

Research and development costs include (i) salaries and benefits of the Group's research and development and product planning staff; (ii) raw materials, components and parts used for research and development and product planning; and (iii) other miscellaneous costs and expenses such as rental fees, design service fees, depreciation and certification fees.

For FY2017, research and development costs of the ION360 business soared to approximately HK\$101.5 million from approximately HK\$11.9 million for FY2016. The increase was mainly attributable to (i) ION360 business started its operation since November 2016, and (ii) the design, development and certification for 360-degree cameras was kicked off and completed in FY2017.

For FY2017, the Group recorded research and development costs of approximately HK\$81.1 million from the Group's ODM/JDM business, which decreased by approximately 33.1% from approximately HK\$121.2 million for FY2016. This decrease was mainly attributable to development of 360-degree cameras under the Group's ION360 business occupied a significant portion of the Group's R&D resources.

## Other expenses

Expense by business unit	2017 HK\$'000	2016 HK\$'000
Attributable to ION360 business	117,486	84
Attributable to ODM/JDM business	71,197	6,931
Total	188,683	7,015

Other expenses include principally (i) exchange losses arising mainly from fluctuations in exchange rates between the invoice and settlement dates of its sales and purchases and from translation of its US\$-denominated trade payables and receivables; and (ii) impairment losses of assets.

For FY2017, other expenses of the Group's ION360 business primarily consist of (i) impairment loss for goodwill of approximately HK\$93.1 million and (ii) impairment loss for trademarks and technology licencing agreement of approximately HK\$21.8 million. These impairment losses were due to the unsatisfactory market response to the new virtual reality product of ION360 business, and the significant uncertainty of future development of virtual reality industry, which affects the recoverable amounts of the cash generating units of ION360 business. The expected recoverable amounts of goodwill, trademarks and technology licencing agreement were nil.

# Management Discussion and Analysis

For FY2017, other expenses of the Group's ODM/JDM business increased significantly to approximately HK\$71.2 million from approximately HK\$6.9 million for FY2016. This increase was mainly attributable to (i) impairment losses of approximately HK\$5.4 million in relation to a cooperation partner's default in repayment of deposits; (ii) approximately HK\$9.7 million in relation to the impairment loss of investments in associates; and (iii) approximately HK\$52.0 million in relation to the impairment losses of several available-for-sale investments. These impairment losses from investments in associates and available-for-sale investments were due to under-performance of their respective product/service and the significant uncertainty of future development of the industry, resulting in lower recoverable amounts of these investments than their carrying amounts.

## Finance costs

For FY2017, all the finance costs of the Group were attributable to the ODM/JDM business, which were approximately HK\$1.4 million (FY2016: approximately HK\$1.9 million), representing a decrease of approximately 27.2% as compared to FY2016. This decrease was attributable to a decrease in average borrowing of US\$ amounts from certain banks in Hong Kong for settlement of decreased trade payments.

## Share of losses of associates

The Group invested in two start-up companies which are located in the United States and Mainland China, respectively. They are principally engaged in design and development of creative smart digital products.

As the Group has significant interests in these two companies and can exercise significant influence, other than control or joint control, over these two companies, the investments were accounted for under equity method. The Group's share of the post-acquisition results of associates is in the consolidated statement of profit or loss. For FY2017, the Group shared approximately HK\$3.4 million losses from the associates.

## Income tax expense

Expense by business unit	2017 HK\$'000	2016 HK\$'000	Change
Attributable to ION360 business	(1,010)	(4,530)	-77.7%
Attributable to ODM/JDM business	16,276	12,440	30.8%
Total	15,266	7,910	93.0%

For FY2017, the income tax credit of the Group's ION360 business was recognized for the losses available for offsetting against future taxable profits in certain subsidiaries.

For FY2017, the amount of income tax expense of the Group's ODM/JDM business was approximately HK\$16.3 million (FY2016: approximately HK\$12.4 million), representing an increase of approximately HK\$3.8 million as compared to FY2016, as certain subsidiaries recorded more profits than the prior year.

Effective income tax rate was negative for FY2017, which was caused by the significant loss recorded by the Group.

## Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK\$485.3 million for FY2017.

# Management Discussion and Analysis

## Liquidity and capital resources

The Group's principal cash requirements are to pay for working capital needs, capital expenditures for the expansion and upgrade of production facilities, merger and acquisitions along its value chain, and investments in start-up companies with synergy effects. The Group meets these cash requirements by relying on cash flows generated from operating activities and proceeds from issue of shares as its principal sources of funding. The following table sets out its selected consolidated cash flow for the periods indicated:

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Net cash flows (used in)/from operating activities	<b>(213,573)</b>	135,046
Net cash flows used in investing activities	<b>(51,255)</b>	(128,994)
Net cash flows used in financing activities	<b>(33,919)</b>	(134,591)
Net decrease in cash and cash equivalents	<b>(298,747)</b>	(128,539)
Cash and cash equivalents at beginning of year	<b>480,436</b>	629,990
Effect of foreign exchange rate changes, net	<b>21,440</b>	(21,015)
Cash and cash equivalents at end of year	<b>203,129</b>	480,436

Net cash used in operating activities for FY2017 was approximately HK\$213.6 million, which primarily reflected (i) the adjusted loss before tax of approximately HK\$201.3 million; (ii) the collection of trade receivables of approximately HK\$181.0 million; (iii) the increase in inventory balances of approximately HK\$268.0 million; (iv) the decrease in prepayments, deposits and other receivables of approximately HK\$13.8 million; and (v) the increase in trade payables of approximately HK\$54.0 million.

Net cash used in investing activities for FY2017 was approximately HK\$51.3 million. This consisted mainly of (i) payment of approximately HK\$13.1 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; and (ii) investment of approximately HK\$42.2 million in unlisted start-up companies.

Net cash used in financing activities for FY2017 was approximately HK\$33.9 million, which was caused by (i) net repayment of bank borrowings of approximately HK\$11.7 million as the Group utilised less interest-bearing bank borrowings to settle trade payables due to the shrink of purchase scale; and (ii) payment of approximately HK\$27.3 million to settle the 2016 final dividends.

The Group's cash and cash equivalents were denominated in US\$, HK\$ and RMB as at 31 December 2017.

# Management Discussion and Analysis

## Borrowing and the pledge of assets

The aggregate amount of the Group's banking facilities as at 31 December 2016 and 31 December 2017 was approximately HK\$290.8 million and approximately HK\$275.8 million, respectively. As at the respective dates, total bank loans in the amounts of approximately HK\$101.0 million and approximately HK\$89.3 million were outstanding, respectively, which were repayable within one year. The Group utilised less interest-bearing bank borrowings to settle trade payables due to the shrink of purchase scale.

The Group's bank and other borrowings are all denominated in US\$ and bear fixed interest rates. As at 31 December 2017, the annual interest rate of bank borrowings ranged from 1.8% to 2.9% (31 December 2016: 1.8% to 2.2%).

Further details of the Group's bank borrowings are set out in note 23 to financial statements.

None of the Group's bank loans were secured by its assets as at 31 December 2017 and 31 December 2016.

## Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank and other borrowings) by total equity as at the end of the each period end. The Group's gearing ratio as at 31 December 2016 and 31 December 2017 was approximately 9.9% and approximately 15.7%, respectively. The increase in gearing ratio was primarily due to the significant decrease in total equity as a result of the significant loss recorded for the year.

## Capital expenditure

During FY2017, the Group invested approximately HK\$13.7 million (FY2016: approximately HK\$28.1 million) in fixed assets and intangible assets, of which approximately HK\$11.9 million (FY2016: approximately HK\$27.0 million) was used for the purchase and upgrade of equipments used for expansion of production facilities.

## Off balance sheet transactions

During FY2017, the Group did not enter into any material off balance sheet transactions.

## Foreign exchange exposure and exchange rate risk

The Group has transactional currency exposure, which arises from sales in currencies other than the relevant operating units, that is, functional currencies. Approximately 90.6% and 87.6% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 61.2% and 52.7% of inventory costs were denominated in their functional currencies for FY2016 and FY2017, respectively.

The Group used forward currency contracts to manage currency risk. However, due to the high fluctuation in exchange rate during the year, the Group did not enter into any forward currency contracts during FY2017 and had no outstanding forward currency contracts as at 31 December 2017 (31 December 2016: Nil).

## Events after the reporting period

There are no significant events occurring after the reporting period of FY2017 up to the date of this report.



# Management Discussion and Analysis

## Treasury policies

The Group has implemented its internal treasury investment policies since January 2015 (updated in December 2015), which provide the guidelines, requirements and approval process with respect to its treasury investment activities. It regularly evaluates the risks and returns of its wealth management products.

Under its treasury investment policies, the Group is only allowed to invest in wealth management products with the two lowest risk rating classified by the banks and debentures with ratings above “BBB” or “baa” or similar ratings. All the treasury products must also meet the following criteria: (i) be issued by well-recognised publicly-listed banks, (ii) no default history, and (iii) have a maturity term of less than one year or can be easily converted into cash in the market. Such treasury investment policies also provide that the outstanding balance of the Group’s wealth management products shall not exceed 50% of its total amount of cash and cash equivalents and wealth management products. Any plan to increase this limit must be approved by the Board. No single investment can exceed 35% of the total amount invested.

The Group has an experienced management team and strict procedures in place to ensure the wealth management products are purchased in compliance with its internal policies and requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The management, internal audit and the Board (including the independent non-executive Directors) regularly review its compliance with the treasury investment policies and assess the risk associated with these investments.

The Group’s total investment under its treasury policies was approximately HK\$10.8 million as at 31 December 2017 (31 December 2016: approximately HK\$10.4 million). No listing proceeds were used to invest in the wealth management products.

## Employees and emoluments policy

As at 31 December 2017, the Group employed a total of 1,889 employees (31 December 2016: 2,344). The staff costs of the Group, excluding directors’ emoluments and any contributions to pension scheme, were approximately HK\$199.0 million for FY2017 (FY2016: approximately HK\$270.3 million), approximately HK\$23.7 million (FY2016: approximately HK\$9.4 million) of which are expenses for the Group’s share option schemes and share award scheme. All of the Group’s employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. The Group seeks to provide compensation for its research and development staff at above-market levels to attract and retain talent. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme on 29 May 2015 and the share option scheme on 12 June 2015, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes. In addition to the share option schemes, the Group also adopted a share award scheme on 20 September 2016 to: (i) recognise the contributions by certain employees and to provide them with incentives in order to retain talent; and (ii) attract suitable personnel for the Group’s further development.

## Significant investments held

As at 31 December 2017, the Group held unlisted equity investments of approximately HK\$38.3 million (31 December 2016: approximately HK\$61.2 million), including investments in associates and available-for-sale investments. These unlisted equity investments were made in start-up companies which have synergies with the Group’s business.

# Management Discussion and Analysis

## Application of global offering proceeds

The Company was listed on the Stock Exchange on 2 July 2015. The net proceeds raised from the global offering were approximately HK\$613.0 million after deduction of related expenses. The Company applied proceeds from the Listing as follows: The unused net proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong and Mainland China in accordance with the intention of the Board as disclosed in the prospectus of the Company dated 19 June 2015.

Use of proceeds	Actual	Actual	Balance as at
	net proceeds	utilisation up to 31 December 2017	31 December 2017
	HK\$ million	HK\$ million	HK\$ million
Purchase of land or completed properties or offices and purchase of production machinery	226.7	71.8	154.9
Marketing expenditures	116.5	116.5	–
Possible mergers and acquisitions	116.5	116.5	–
Research and development expenditures	92.0	92.0	–
Working capital and general corporate purposes	61.3	61.3	–
	613.0	458.1	154.9

On 23 January 2018, the Board has resolved to change the use of and propose to apply the above unutilized net proceeds for the purpose of the Company's (i) marketing expenditures relating to the development and promotion of house brands; (ii) research and development expenditures relating to development of new products and the recruitment of additional engineers; and (iii) purchases of raw materials.

## Commitment

As at 31 December 2017, the Group's operating lease and capital commitment amounted to approximately HK\$45.6 million (31 December 2016: approximately HK\$44.9 million) and approximately HK\$1.4 million (31 December 2016: approximately HK\$24.9 million), respectively. The committed investment of RMB20.0 million in Kandao Lightforge Co., Ltd. was paid in January 2017, which led to the decrease in capital commitment.

## Future plans for material investments or capital assets

In the near term, the Group did not have any plans for material investments or capital assets as at the date of this report.

## Material acquisitions and disposals of subsidiaries and associated companies

Save for the investment of RMB20.0 million in Kandao Lightforge Co., Ltd. and the investment of US\$1.5 million in a US Company, there is no other material acquisitions and disposals of subsidiaries and associated companies during FY2017. As all applicable percentage ratios as set out in Chapter 14 of the Listing Rules in respect of the transactions were less than 5%, they were not notifiable transactions subject to the reporting and announcement requirements.

The Company intends to dispose the ION360 business as and when suitable opportunity arises, in light of the significant loss incurred in ION360 business and the Company's strategy to operate manage its finance in a cautious and prudent manner.

# Management Discussion and Analysis

## **Contingent liabilities**

As at 31 December 2017, the Group had no significant contingent liabilities.

## **Annual general meeting**

The annual general meeting of the Company (the "AGM") is scheduled to be held on Friday, 25 May 2018. A notice convening the AGM will be issued and disseminated to the Shareholders in due course.

## **Dividends**

The Board does not recommend the payment of any final dividend for FY2017 (FY2016: HK3.2 cents per ordinary share).

## **Closure of register of members**

The register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, during which period no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 May 2018.

# Director and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Tang Wing Fong Terry (鄧榮芳)**, aged 59, is the Chairman, an executive Director and the chief executive officer of our Company and the founder of our Group. Mr. Tang is chairman of Nomination Committee and a member of Remuneration Committee of the Company. He was appointed as the Chairman and an executive Director with effect from 18 December 2013. He has been the general manager of our Group and is a director of each of the subsidiaries of our Company. Mr. Tang is primarily responsible for the overall strategic planning and overseeing the general management of our Group. Mr. Tang has more than 20 years of experience in the digital imaging, computer peripherals and consumer electronics industry. Mr. Tang is the director of Fortune Six Investment Ltd., a controlling shareholder which held approximately 48.74% of total issued shares in the Company as at 31 December 2017.

Prior to establishing our predecessor business in 2000, Mr. Tang co-founded Peer Industries Ltd., a company engaged in the trading of materials and production equipment for manufacturing computer diskettes, in 1992.

Mr. Tang received a part-time higher certificate of mechanical engineering from the Hong Kong Polytechnic University in 1982.

**Mr. Wu Yongmou (吳勇謀)**, aged 39, is an executive Director. Mr. Wu joined our Group in 2010 and was appointed as an executive Director with effect from 25 March 2015. He is the general manager for Sky Light Technology (Heyuan) Limited (“Sky Light Technology”) and primarily responsible for its overall management. Mr. Wu has more than 10 years of experience in the digital imaging industry and in production management. He is also a director of Sky Light Electronic (Shenzhen) Limited (“Sky Light Shenzhen”).

Mr. Wu founded Shenzhen Yongyida Electronics Co., Ltd. (深圳市勇藝達電子有限公司), a company engaged in the manufacturing of mobile phone and other communication products, in 2003. In 2007, Mr. Wu established Xinyongyi Science Park (Heyuan) Co., Ltd. (“Xinyongyi”), a company engaged in the development and operation of science park in Heyuan. Mr. Wu is the director of YongWeiDa Investment Limited, a substantial shareholder which held approximately 6.64% of total issued shares in the Company as at 31 December 2017.

Mr. Wu graduated from the China University of Petroleum, Beijing with an associate degree in business administration through distance learning in 2006.

**Mr. Lu Yongbin (盧勇斌)**, aged 45, is an executive Director, the chief financial officer and a joint company secretary of our Company. Mr. Lu joined our Group in 2005 and was appointed as an executive Director with effect from 25 March 2015. He is currently the head of our finance department and is primarily responsible for the management of overall financial and accounting affairs of our Group. Mr. Lu has approximately 25 years of experience in accounting and related financial management and 13 years of experience in the digital imaging industry.

Mr. Lu graduated from the Hubei Normal University with an associate degree in accounting and finance in 1998. Mr. Lu became as a certified public accountant in the PRC in 2004 and is a fellow member of the Chinese Institute of Certified Public Accountants and the China Certified Tax Agents Association.

# Director and Senior Management

## NON-EXECUTIVE DIRECTORS

**Professor Huang Erwin Steve (黃岳永)**, aged 52, is a Non-executive Director of our Company. Professor Huang joined our Group on 25 March 2015 and was appointed as a Non-executive Director with effect from 25 March 2015. Professor Huang was engaged as an external consultant of business planning of the Company with effect from 27 July 2015 for a term ended on 31 December 2017.

Professor Huang is the deputy chairman and a non-executive director of Tse Sui Luen Jewellery (International) Limited (Stock Code: 00417), a company listed on the Stock Exchange.

Professor Huang is actively engaged in social entrepreneurship with a view to bridging social needs through innovation and information technology. He is currently an associate professor on Engineering Practice, adjunct professor of ISOM, senior advisor (Entrepreneurship) of The Hong Kong University of Science and Technology, his mission is to teach Social Innovation and Entrepreneurship to university students and to let more young generations understand entrepreneurial spirit, identify social issues, as well as creating social impact through innovations. He is the vice-chairman of Junior Achievement Hong Kong, dedicated to inspiring and preparing young leaders to succeed in a global economy through entrepreneurship, co-founder of DreamStarter, a new community initiative that makes dream projects initiated by school students come true, through raising awareness, mentoring, crowdfunding and crowdsourcing support and chairman of VR Educate Limited — Consultative Group, which aims to foster the interest in schools and enhance VR eLearning and maintain VR technology as a school-friendly basis. He is also the founder of Agent of Change, a young social enterprise aiming at provision of low-price high-quality daily necessities to grassroots and chairman of Social Career, a NPO to educate the general public in volunteerism and involvement in social causes and services. In 2011 & 2016, he was elected as a member of election committee (Information Technology) for the Legislative Council and Chief Executive of Hong Kong.

Professor Huang holds double degrees of Science in Business Administration; Business Administration and Management from Boston University, the United States.

**Ms. Tang Kam Sau (鄧錦繡)**, aged 55, is a non-executive Director of our Company. Ms. Tang joined our Group in 2005 and was appointed as a non-executive Director with effect from 25 March 2015. Ms. Tang has approximately 13 years of experience in the digital imaging industry.

Ms. Tang is a director of a company which is principally engaged in manufacturing multimedia product packaging materials since 2009.

Ms. Tang is also a director of Sky Light Imaging Limited, Sky Light Shenzhen and Sky Light Digital Limited. Ms. Tang has been appointed as a director of Vupoint Solutions Inc, a member of the Group, with effect from 22 January 2016.



# Director and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Tsu Ming Louis (陳祖明)**, aged 58, is an independent non-executive Director of our Company. Mr. Chan joined our Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Mr. Chan is a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Mr. Chan has more than 20 years of experience in finance and banking. Between 1982 and 1983, he served as a credit analyst of Banque Nationale de Paris. Between 1983 and 1986, he worked at The Industrial Bank of Japan, Ltd. as a senior marketing officer. He worked at Bankers Trust Company between 1986 and 1995 with his last position as a vice president (capital markets). Mr. Chan joined Standard Chartered Bank in 1995 as a senior manager. Between 2000 and 2001, he was the head of corporate development of Willas-Array Electronics Management Limited, now a wholly-owned subsidiary of Willas-Array Electronics (Holdings) Limited, a company listed on the Stock Exchange (stock code: 854) and the Singapore Stock Exchange. He worked at Standard Bank Asia Limited in 2005 as a director (equity Asia) until 2009. Between 2009 and 2012, he was a senior director (finance and accounting) of Wuhan Admiral Technology Limited, a wholly-owned subsidiary TPV Technology Limited, a wholly-owned subsidiary of TPV Technology Limited (stock code: 903), a company listed on the Stock Exchange which is engaged in the manufacturing, sales and distribution of televisions and computer monitors.

Mr. Chan obtained a master's degree in business administration from the University of Hong Kong in November 1995 and a higher diploma in business studies (banking) from the Hong Kong Polytechnics University in November 1982.

**Dr. Cheung Wah Keung (張華強)**, aged 56, is an independent non-executive Director of our Company. Dr. Cheung joined our Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Dr. Cheung is a member of Audit Committee of the Company. Dr. Cheung has more than 30 years of experience in trading and manufacturing of consumer electronic products.

Dr. Cheung was the chairman and an executive director of Shinhint Acoustic Link Holdings Limited (Stock Code: 2728) from May 2005 to November 2014. Dr. Cheung also served as an independent non-executive director of China Kingstone Mining Holdings Limited (Stock code: 1380) from July 2015 to December 2015. Dr. Cheung was the non-executive chairman and an independent non-executive director of Harmonic Strait Financial Holdings Limited (now known as Asia Investment Finance Group Limited) (Stock Code: 33) from September 2013 to September 2016 and June 2007 to September 2016, respectively. Dr. Cheung is currently an independent non-executive director of Casablanca Group Limited (Stock Code: 2223) since May 2017. All of these companies are listed on the Main Board of the Stock Exchange.

Dr. Cheung obtained a bachelor's degree in business administration, a master's degree in global political economy from the Chinese University of Hong Kong, a master's degree in corporate governance and a doctoral degree in business administration from The Hong Kong Polytechnic University. Dr. Cheung has been elected as an awardee of the Young Industrialist Awards of Hong Kong 2005 by the Federation of Hong Kong Industries.

# Director and Senior Management

**Mr. Tse Yat Hong (謝日康)**, aged 48, is an independent non-executive Director of our Company. Mr. Tse joined our Group on 5 December 2017 and was appointed as an independent non-executive Director with effect from 5 December 2017. He is chairman of the Audit Committee and Remuneration Committee, and a member of the Nomination Committee of the Company.

Since June 2000, Mr. Tse has been serving as the Chief Financial Officer of Shenzhen International Holdings Limited (stock code: 00152), a company listed on the Main Board of the Stock Exchange. Prior to this, Mr. Tse worked in the audit profession in one of the international accounting firms for years. Mr. Tse is currently an independent non-executive director of China Huirong Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 01290). He also served as an independent non-executive director of Casablanca Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 02223) during the period from October 2012 to March 2015, and a non-executive director of Shenzhen Expressway Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 00548) and the Shanghai Stock Exchange (stock code: 600548) during the period from December 2008 to December 2017. Mr. Tse has extensive experience in accounting, finance and corporate governance matters of listed companies and has broad knowledge in accounting and financial rules and regulations in Hong Kong and China.

Mr. Tse is a Fellow of the Hong Kong Institute of Certified Public Accountants and a FCPA of CPA Australia. Mr. Tse graduated from Monash University in Melbourne, Australia in April 1992 with a bachelor's degree in accounting and computer science.

## SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business and comprises each of our executive Directors and the executives described below.

**Mr. Gan Weijun (甘衛軍)**, aged 50, is the head of research and development of our Group. Mr. Gan joined our Group in October 2002. He is primarily responsible for leading the overall research and development activities of our Group. Mr. Gan has approximately 15 years of experience in the digital imaging industry.

Mr. Gan obtained a bachelor's degree in precision instrument from the Shanghai Jiao Tong University in 1989.

**Dr. Yum Tsz Yin (任子賢)**, aged 38, is the director of marketing and strategic sales of our Group. Dr. Yum joined our Group in April 2016. He is primarily responsible for the sales, program and marketing of our Group. Dr. Yum has approximately 16 years of experience in product, business and brand management in the consumer electronics industry.

Prior to joining our Group, Dr. Yum worked at IDT International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0167) between August 2005 and September 2013 and Binatone Electronics International Limited ("Binatone") between October 2013 and March 2016, with his last position in Binatone as the global product management director for Motorola baby, smart home, pet monitors and IOT products.

Dr. Yum obtained a bachelor's degree in electronic engineering and doctor's degree in philosophy from the City University of Hong Kong in 2002 and 2005, respectively.

**Mr. Tsui Chiu (徐超)**, aged 39, is the head of product planning of our Group. Mr. Tsui joined our Group in April 2011. He is primarily responsible for leading the product planning activities of our Group. Mr. Tsui has more than 10 years of experience in product planning and management in the consumer electronics industry.

Prior to joining our Group, Mr. Tsui worked at the Hong Kong office of Radioshack between January 2005 and November 2007 and the China office of Office Depot between December 2007 and June 2010, both of which are well-known chain stores in the United States.

Mr. Tsui obtained a bachelor's degree in engineering and master's degree in philosophy from the Hong Kong Polytechnic University in 2001 and 2004, respectively.

# Director and Senior Management

## JOINT COMPANY SECRETARIES

**Mr. Lu Yongbin (盧勇斌)**, is a joint company secretary of our Company. Mr. Lu is also an executive Director and the chief financial officer of our Company. Please refer to the paragraph above headed “Executive Directors” in this report for further biographical information about Mr. Lu.

**Ms. Ho Wing Tsz Wendy (何詠紫)**, is a joint company secretary of our Company. Ms. Ho is a director of corporate services at Tricor Services Limited, a global professional service provider specializing in integrated business, corporate and investor services. Prior to joining Tricor Services Limited, Ms. Ho served as a manager of Tengis Limited, the company secretarial department of Ernst & Young in Hong Kong. Ms. Ho has extensive experience in a diverse range of corporate services and has been providing professional services for more than 20 years. Ms. Ho currently serves as the company secretary to the manager of a listed real estate investment trust, the company secretary of the trustee-manager of a fixed single investment trust and its operating company as listed on the Stock Exchange and the company secretary or joint company secretary of four listed companies in Hong Kong (including the Company). Ms. Ho is a chartered secretary as well as a fellow member of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries (“HKICS”). She holds a practitioner’s endorsement certificate issued by the HKICS.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

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 of the Company (the "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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as the basis of the Company's corporate governance practices. Throughout the year ended 31 December 2017, the Company has complied with all applicable code provisions of the CG Code except for the following:

### Non-compliance during FY2017

- (i) Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman of the Board ("Chairman") and chief executive of the Company are performed by Mr. Tang Wing Fong Terry, the Company has deviated from the CG Code provision A.2.1. The Board considers that having Mr. Tang Wing Fong Terry acting as both our Chairman and our chief executive officer will provide a strong and consistent leadership to the Company and allow for more effective planning and management for our Group. In view of Mr. Tang's extensive experience in the industry, personal profile and critical role in our Group and its historical development, the Board considers that it is beneficial to the business prospects of our Group that Mr. Tang continues to act as both our Chairman and our chief executive officer. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.
- (ii) Following the passing away of Mr. Wong Kee Fung Kenneth on 30 October 2017, the composition of the Board comprised three (3) executive directors, two (2) non-executive directors and two (2) independent non-executive directors. The number of independent non-executive directors on the Board was less than three and also represented less than one-third of the members of the Board as required under Rules 3.10 (1) and 3.10A of the Listing Rules. The Board and the Audit Committee also did not have an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rules 3.10(2) and Rule 3.21 of the Listing Rules.

Moreover, (a) the Audit Committee comprised only two (2) members which did not fulfill the requirement under Rule 3.21 of the Listing Rules that the Audit Committee must comprise a minimum of three (3) members and be chaired by an independent non-executive director; (b) the Remuneration Committee comprised one executive director and one independent non-executive director as members which did not fulfill the requirement under Rule 3.25 of the Listing Rules that the Remuneration Committee must be chaired by an independent non-executive director and comprising a majority of independent non-executive directors; and (c) the Nomination Committee comprised one executive director and one independent non-executive director which did not fulfill the code provision A.5.1 as set out in Appendix 14 to the Listing Rules that the Nomination Committee must comprise a majority of independent non-executive directors.

The above non-compliance has been solved upon the appointment of Mr. Tse Yat Hong as an independent non-executive Director of the Company, the chairman of the audit committee of the Company, the chairman of the remuneration committee of the Company and a member of the nomination committee of the Company on 5 December 2017.

# Corporate Governance Report

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct governing its directors' securities transactions. Specific enquiries have been made with all the Directors and they have confirmed that they have complied with the Model Code throughout the year ended 31 December 2017.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines"), for securities transactions by relevant employees (including directors or employees of a subsidiary or holding company of the Company) who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company. In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

## THE BOARD OF DIRECTORS

### Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company and its shareholders at all times.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

### Delegation of management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The Company has adopted a formal schedule of functions reserved to the Board and delegated to the management.

### Delegation of corporate governance duties

The Board has delegated the responsibility for performing corporate governance functions set out in the code provision D.3.1 of the CG Code to the audit committee of the Company.

### Board Composition

Currently, the Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors. The Company has complied with rules 3.10 and 3.10A of the Listing Rules. Throughout the year ended 31 December 2017 and save as disclosed above in the paragraph headed "Corporate Governance Practices" in the Corporate Governance Report, the number of independent non-executive Directors represents more than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgment.

# Corporate Governance Report

The Board comprises the following directors:

## **Executive Directors**

Mr. Tang Wing Fong Terry (*Chairman and Chief Executive Officer*)

Mr. Wu Yongmou

Mr. Lu Yongbin

## **Non-executive Directors**

Professor Huang Erwin Steve

Ms. Tang Kam Sau

## **Independent non-executive Directors**

Mr. Tse Yat Hong (Appointed on 5 December 2017)

Mr. Wong Kee Fung Kenneth (Passed away on 30 October 2017)

Dr. Cheung Wah Keung

Mr. Chan Tsu Ming Louis

The brief biographic details of and relationships between the existing Directors are set out under the section headed "Directors and Senior Management" in this annual report. There are no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

## **Chairman and Chief Executive Officer**

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has not segregated the roles of chairman and chief executive officer and Mr. Tang Wing Fong Terry currently holds both positions, as explained in the above paragraph headed "Corporate Governance Practices" in the Corporate Governance Report.

## **Non-executive Directors**

The non-executive Directors are expected to participate in the activities of the Board, particularly in the establishment of a selection process to ensure a mix of competent directors and officers; adoption of a system of internal checks and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of Board authority is within the powers conferred to the Board under the memorandum and articles of association of the Company and applicable laws, rules and regulations.

## **Independent Non-executive Directors**

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their skills, expertise and number in the Board ensure that strong independent views and judgment are brought in the Board's deliberations and that such views and judgment carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of Shareholders and the Company.

Each independent non-executive Director has provided the Company with an annual confirmation of his independence. The Company considers all independent non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

# Corporate Governance Report

## Appointment, Re-Election and Removal of Directors

All Directors are appointed for a specific term of three years. Each of the executive Directors, non-executive Directors and other two independent non-executive Directors of the Company is under a service agreement or letter of appointment with the Company commencing from 2 July 2015. Except for Mr. Tse Yat Hong, an independent non-executive Director of the Company, is under a letter of appointment with the Company commencing from 5 December 2017.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. According to the Company's Articles of Association, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's annual general meeting ("AGM"). Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by Shareholders at the next following AGM.

In accordance with the Company's Articles of Association, Mr. Wu Yongmou, Ms. Tang Kam Sau and Mr. Chan Tsu Ming Louis shall retire at the forthcoming 2018 AGM. Mr. Tse Yat Hong was appointed by the Board on 5 December 2017 shall hold office until the forthcoming 2018 AGM. All of the above retiring directors, being eligible, will offer themselves for re-election at the forthcoming 2018 AGM. The Board and the Nomination Committee recommend their reappointment.

The Company's circular, sent together with this annual report, contains detailed information of the above four proposed retiring directors as required by the Listing Rules.

## Directors' Training

All Directors confirmed that they had complied with CG Code provision A.6.5 during the year ended 31 December 2017, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

In order to ensure adequate performance of duties by the independent non-executive Directors, the Company also arranged on-site visit and sufficient communication with the management for the independent non-executive Directors.

# Corporate Governance Report

The existing Directors are continually updated on changes and developments to the Group's business and in the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities. Directors' training is an ongoing process. All directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide their training records to the Company for record. During the year ended 31 December 2017, the Directors have participated in continuous professional training as follows:

Name of Directors	Nature of training covered <sup>(Notes)</sup>		
	a	b	c
Executive Directors			
Mr. Tang Wing Fong Terry	✓		✓
Mr. Wu Yongmou	✓	✓	✓
Mr. Lu Yongbin	✓	✓	✓
Non-executive Directors			
Professor Huang Erwin Steve	✓	✓	✓
Ms. Tang Kam Sau	✓		✓
Independent non-executive Directors			
Mr. Tse Yat Hong (Appointed on 5 December 2017)	✓	✓	✓
Dr. Cheung Wah Keung	✓	✓	✓
Mr. Chan Tsu Ming Louis	✓		✓

Notes:

- Receiving in-house regular briefings and updates on the Group's business, operations and corporate governance matters.
- Attending seminars/forums, which are relevant to their directors' duties and responsibilities, organised by professional firms/institutions.
- Reading technical bulletins, periodicals and other publications on subjects relevant to the Group and on their directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

## Board Meetings

The Board may meet together for the despatch of business, adjourn and otherwise regulate its meetings and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. Notice of regular Board meetings will be dispatched to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have material interests/conflict of interest, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.



# Corporate Governance Report

Set out below are details of the attendance record of each Director at the Board and committee meetings of the Company held during the year ended 31 December 2017:

Name of Directors	Attendance/Number of Meetings Held				Annual General Meeting
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	
Executive Directors					
Mr. Tang Wing Fong Terry	6/6*	N/A	1/1*	1/1	1/1
Mr. Wu Yongmou	5/6	N/A	N/A	N/A	1/1
Mr. Lu Yongbin	6/6	N/A	N/A	N/A	1/1
Non-executive Directors					
Professor Huang Erwin Steve	6/6	N/A	N/A	N/A	1/1
Ms. Tang Kam Sau	6/6	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Wong Kee Fung Kenneth (Passed away on 30 October 2017)	2/3	2/2*	N/A	N/A	1/1
Mr. Tse Yat Hong (Appointed on 5 December 2017)	1/1	1/1*	1/1	1/1*	N/A
Dr. Cheung Wah Keung	5/6	2/3	N/A	N/A	1/1
Mr. Chan Tsu Ming Louis	6/6	3/3	1/1	1/1	1/1

Remark:

\* representing chairman of the Board or the relevant committees

At least four regular board meetings are convened each year.

Apart from the above Board meetings, the Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year.

## Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017. 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 statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

## Directors' and Officers' liability insurance

The Company has taken out liability insurance to indemnify its Directors and senior management for their liabilities arising from the performance of their duties. The insurance coverage is reviewed by the Company on an annual basis. No claim has been made against the Directors and senior management of the Company during the year.

# Corporate Governance Report

## BOARD COMMITTEES

The Board has established three committees, namely, the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee"), and the nomination committee ("Nomination Committee"), for overseeing particular aspects of the Company's affairs. All committees have been established with defined written terms of reference, which were posted on the Stock Exchange's ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's websites ([www.sky-light.com.hk](http://www.sky-light.com.hk)). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

### Audit Committee

The Company established its Audit Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial information and reporting process, risk management and internal control systems and effectiveness of internal audit function, to monitor scope of audit and nominate and appoint external auditors and provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, being Mr. Tse Yat Hong, Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all are independent non-executive Directors. Mr. Tse Yat Hong currently serves as the chairman of our Audit Committee.

During the year, the Audit Committee has held three meetings (the attendance records of each Committee member are set out in above paragraph headed "Board Meetings") for discussion on the following issues arising from the audit and financial reporting matters:

- Review and discussion of the audited consolidated financial statements, results announcement and report for the year ended 31 December 2016; unaudited interim condensed financial statements, results announcement and report for the six months ended 30 June 2017; the related accounting principles and practices adopted by the Group and the relevant audit/review findings, the report from the management on the Company's internal control and risk management review and processes;
- Recommendation of the re-appointment of the external auditors;
- Review of the Group's continuing connected transactions;
- Review of and monitoring the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report;
- Discussion of appointment of external service provider for review of the Group's financial reporting process, risk management and internal control systems; and
- Review of the risk management and internal control systems and internal control function.

The external auditors were invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit/review and financial reporting matters. The chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting.

# Corporate Governance Report

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control, risk management and financial reporting matters, including the review of the audited annual results and annual report for the year ended 31 December 2016 and the unaudited interim results and interim report for the six months ended 30 June 2017, and the review of the audited annual results and annual report for the year ended 31 December 2017.

The terms of reference of Audit Committee were revised and adopted by the Company on 18 December 2015 pursuant to the amendments to the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 of the Listing Rules relating to internal control and risk management which would apply to accounting periods beginning on or after 1 January 2016.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors.

## Nomination Committee

The Company established Nomination Committee on 12 June 2015 with its written terms of reference by reference to the code provisions of the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board, procedures for nomination and appointment, to assess the independence of independent non-executive Directors; and to make recommendations to the Board on the selection of candidates for any Director and senior management positions. The Nomination Committee comprises three members, being Mr. Tang Wing Fong Terry (chairman of the Board), Mr. Chan Tsu Ming Louis (independent non-executive Director) and Mr. Tse Yat Hong (independent non-executive Director). Mr. Tang Wing Fong Terry currently serves as the chairman of the Nomination Committee.

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, board diversity, the integrity, experience, skills and professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

According to the board diversity policy adopted by the Company, the Nomination Committee is also responsible for reviewing the policy, developing and reviewing measurable objectives (including but not limited to gender, age, cultural and educational background, or professional experience) for implementing the policy, and monitoring the progress on achieving the measurable objectives set to ensure the continued effectiveness of the Board.

During the year, the Nomination Committee has held one meeting (the attendance records of each Committee member are set out in above section headed "Board Meetings") and performed the following major works:

- Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;
- Assessment of the independence of all the Company's independent non-executive Directors; and
- Review of the composition of the senior management.

# Corporate Governance Report

## Remuneration Committee

The Company established Remuneration Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration of the Directors and senior management, remuneration policy and structure for all Directors and senior management, and establish transparent procedures for developing such remuneration policy and structure. The Remuneration Committee consists of three members, being Mr. Tse Yat Hong (independent non-executive Director), Mr. Tang Wing Fong Terry (chairman of the Board) and Mr. Chan Tsu Ming Louis (independent non-executive Director). Mr. Tse Yat Hong currently serves as the chairman of the Remuneration Committee.

During the year, the Remuneration Committee has held one meeting (the attendance records of each Committee member are set out in above paragraph headed "Board Meetings") to review and made recommendations to the remuneration packages of certain Directors and senior management and other related matters.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management, including those members of senior management who are also executive Directors, by band for the year ended 31 December 2017 is set out below:

Remuneration band (HK\$)	Number of individual
<500,000	0
500,001–<1,000,000	4
1,000,001–1,500,000	2

Details of the remuneration of each director of the Company and compensation of key management personnel of the Group for the year ended 31 December 2017 are set out in note 8 and note 35, respectively, to the financial statements contained in this annual report.

In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

- business requirements;
- individual performance and contribution;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

During the review process, no individual director is involved in decisions relating to his/her own remuneration.

# Corporate Governance Report

## CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Audit Committee and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;
2. to review and monitor the training and continuous professional development of directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The corporate governance policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

During the year under review, the Audit Committee has reviewed and monitored the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employee Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## EXTERNAL AUDITORS' REMUNERATION

The Company engaged Ernst & Young as its external auditors for the year ended 31 December 2017. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. The statement of external auditors of the Company about his reporting responsibilities on the Company's consolidated financial statements for the year is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to Ernst & Young, the Company's auditors, in respect of audit services for the year ended 31 December 2017 was HK\$2.5 million. The audit fee was approved by the Board. During the year, the total remuneration in respect of the non-audit services, mainly included tax services and the review of the Group's internal control system and risk management, provided by the external professional firms of the Company was HK\$0.7 million.

The Board has proposed to re-appoint Ernst & Young as the auditors of the Company, which is subject to the approval by Shareholders at the forthcoming AGM.

# Corporate Governance Report

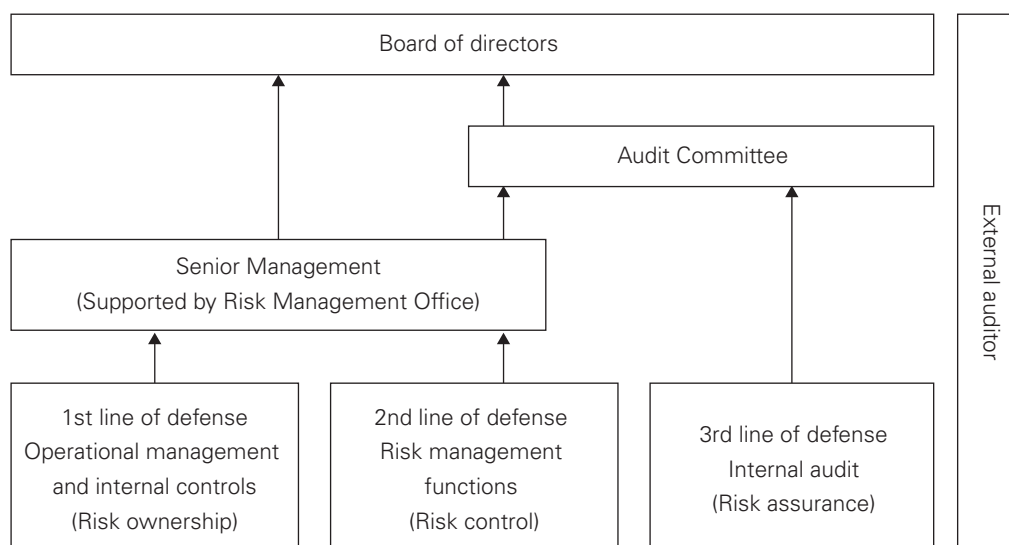
## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal control, and the resourcing of the finance and internal audit functions.

The Company has established an organizational structure with defined levels of responsibility and reporting procedures. The risk management office of the Group ("Risk Management Office") and internal audit functions of the Group ("Group Internal Audit") assist the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors through these committees are kept regularly apprised of significant risks that may impact on the Group's performance.

Appropriate policies and control have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal control can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:



The Risk Management Office, which co-ordinates enterprise risk management activities and reviews significant aspects of risk management for the Group, reports to the Audit Committee at each regularly scheduled meeting, including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management Office at each regularly scheduled meeting.

Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year, the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal control, including but not limited to, any indications of failings or material weaknesses in those control.

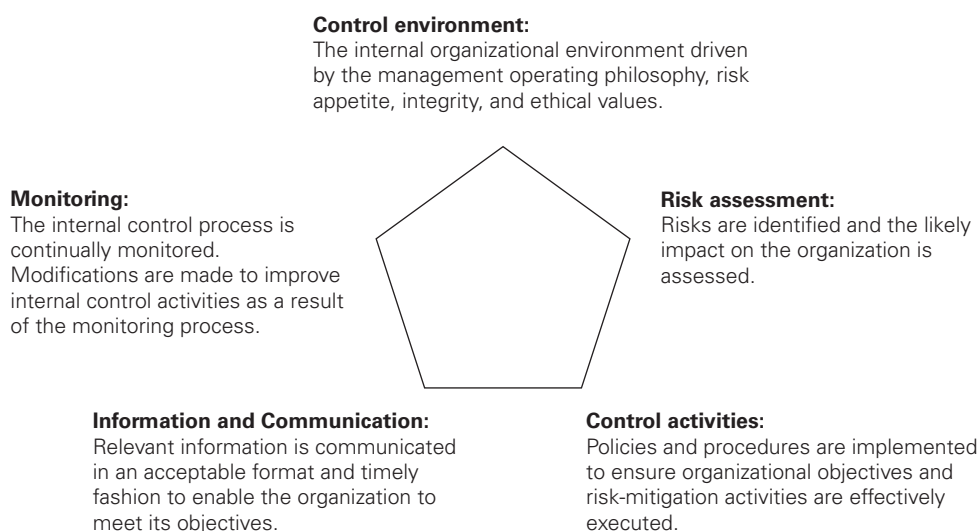
# Corporate Governance Report

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee and key members of executive and senior management of the Group. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee and chief executive officer of the Group periodically.

Group Internal Audit provides independent assurance and report to the Board, the Audit Committee and the chief executive officer of the Group, who is also the chairman of the Board, on the adequacy and effectiveness of internal control for the Group.

The senior management of the Group, supported by the Risk Management Office and monitored by the Group Internal Audit, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for providing regular reports to the Board and/or the Audit Committee on the effectiveness of these systems.

For many years, the Company has had an integrated approach for internal control which is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework.



Within this framework, management is responsible for setting the appropriate tone from the top, performing risk assessments, and owning the design, implementation and maintenance of internal control. Other teams such as finance, legal, and human resources provide assistance and expertise to management to assist it in undertaking its responsibilities. The Board and Audit Committee oversee the actions of management and monitor the effectiveness of the established controls, assisted by assurance provided by the external and internal auditors. The Group's internal control framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and as such, provides reasonable (rather than absolute) assurance against material misstatement or loss.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group to regularly assess and, at least annually, to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and its business practices in the future.

# Corporate Governance Report

The Company has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company will review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. This review process includes assessment as to whether the existing system of internal control continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are recorded in the operating units risk registers for monitoring and incorporated into the Group's consolidated risk register for analysis of potential strategic implications and for regular reporting to the senior management and directors of the Company.

The Audit Committee has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Audit Committee has designated the head of Group Internal Audit to receive on its behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations for action resulting from investigation into complaints.

The Company regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. During the year ended 31 December 2017, the Risk Management Office has worked closely with the operating units, senior management, and the Directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal control with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management Office has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the Directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

During the year ended 31 December 2017, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board and appropriate actions are taken.

During the year ended 31 December 2017, the Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The Board considered that the Group's internal control system is adequate and effective and the Company has complied with the code provision on risk management and internal control of the CG code.

In addition to the review of risk management and internal control undertaken within the Group, the external auditors also assessed the adequacy and effectiveness of certain key risk management and internal control as part of their statutory audits. Where appropriate, the external auditors' recommendations are adopted and enhancements to the risk management and internal control will be made.

## JOINT COMPANY SECRETARIES

The joint company secretaries of the Company are Mr. Lu Yongbin and Ms. Ho Wing Tsz Wendy. Ms. Ho Wing Tsz Wendy, a director of corporate services at Tricor Services Limited (an external service provider) who fulfils the qualification requirements laid down in the Listing Rules and the primary contact at the Company is Mr. Liu Jie Investor Relations Director of the Company. Biographical details of joint company secretaries are set out under "Directors and Senior Management" section in this annual report.

During the year ended 31 December 2017, Mr. Lu Yongbin and Ms. Ho Wing Tsz Wendy each has taken not less than 15 hours of relevant professional training.



# Corporate Governance Report

## SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting. An AGM shall be called by notice of not less than 21 clear days and not less than 20 clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of not less than 14 clear days and not less than 10 clear business days.

### Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 58 of the Company's Articles of Association, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

### Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 58 of the Company's Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 85 of the Company's Articles of Association, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

### Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules and article 66(1) of the Company's Articles of Association, any vote of shareholders at a general meeting must be taken by poll except where the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

# Corporate Governance Report

## INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the Shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the Stock Exchange's and the Company's websites, and issuance of other announcements and circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

## Constitutional Documents

Pursuant to written resolutions of all Shareholders passed on 12 June 2015, the Amended and Restated Memorandum and Articles of Association of the Company were adopted with effect from 2 July 2015 (the "Listing Date"), copy of which is available on both the websites of the Stock Exchange and the Company.

During the year, the Company has not made any changes to its Memorandum and Articles of Association.

# Directors' Report

The Directors are pleased to present to the Shareholders this annual report and the audited financial statements for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 1 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Company and of the Group as at 31 December 2017 are set out in the financial statements on pages 60 to 137. The Board does not recommend any final dividend (2016: HK3.2 cents per ordinary share) for the year ended 31 December 2017.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, during which period no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 May 2018.

## FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 138 of this report. The summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2017 are set out in note 13 to the financial statements.

## BANK BORROWINGS

Particulars of the bank borrowings of the Group as at 31 December 2017 are set out in note 23 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2017 are set out in note 27 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## RESERVES

Details of the movement in reserves of the Company and the Group during the year under review are set out in note 39 to the financial statements and the consolidated statement of changes in equity respectively.

# Directors' Report

## DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK\$372.3 million (2016: approximately HK\$869.7 million) including share premium of approximately HK\$700.0 million and accumulated losses of approximately HK\$327.7 million.

## CHARITABLE DONATIONS

Charitable donation amounted to HK\$23,083 was made by the Group during the year ended 31 December 2017 (2016: Nil).

## MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2017, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 11.3% (2016: approximately 14.3%) and approximately 32.5% (2016: approximately 35.4%) of the Group's total purchases respectively.

For the year ended 31 December 2017, sales to the single top customer of the Group and the five top customers of the Group in aggregate accounted for approximately 23.1% (2016: approximately 35.6%) and approximately 65.9% (2016: approximately 76.5%) of the Group's total turnover respectively.

At all-time during the year ended 31 December 2017, none of the Directors or any of their close associates or any shareholders of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or customers.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the Management Discussion and Analysis of this annual report, which form part of this Directors' Report. The Environmental, Social and Governance Report for the year ended 31 December 2017 will be available on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.sky-light.com.hk](http://www.sky-light.com.hk)) in around June 2018.

## DIRECTORS

The Directors in office as at the date of this report are:

### Executive Directors

Mr. Tang Wing Fong Terry (*Chairman and Chief Executive Officer*)

Mr. Wu Yongmou

Mr. Lu Yongbin

### Non-executive Directors

Professor Huang Erwin Steve

Ms. Tang Kam Sau

### Independent non-executive Directors

Mr. Tse Yat Hong (Appointed on 5 December 2017)

Mr. Wong Kee Fung Kenneth (Passed away on 30 October 2017)

Dr. Cheung Wah Keung

Mr. Chan Tsu Ming Louis

Mr. Wu Yongmou, Ms. Tang Kam Sau and Mr. Chan Tsu Ming Louis will retire in accordance with articles 83 and 84 of the Company's Articles of Association at the Company's forthcoming AGM and being eligible, offer themselves for re-election. Mr. Tse Yat Hong was appointed by the Board on 5 December 2017 to fill a casual vacancy and is subject to re-election by shareholders at the forthcoming 2018 AGM.

# Directors' Report

Every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not a multiple of three (3), then the number nearest to one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The directors to retire in every year will be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Company's Articles of Association, a retiring Director shall be eligible for re-election at the annual general meeting at which he retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

## DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in note 8 and note 9 to the financial statements.

## EMOLUMENT POLICY

The Directors and senior management receive compensation in the form of fees, salaries, benefits in kind and discretionary bonuses relating to the performance of the Company. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations. The Company reviews and determines the remuneration and compensation package of its Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective duties and responsibilities of its Directors and senior management and the performance of the Company. The Directors and employees of the Group may also receive options which may be granted under the Scheme.

## DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date until terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Director and the independent non-executive Director, except for Mr. Tse Yat Hong, has been appointed for an initial term of three years commencing from the Listing Date until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of their appointment or any time thereafter.

Mr. Tse Yat Hong has been appointed for an initial term of three years commencing from the 5 December 2017 until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of their appointment or any time thereafter.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

## MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year.

## PERMITTED INDEMNITY

According to the articles of association of the Company and subject to the provisions of the Hong Kong Companies Ordinance, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities to the fullest extent permitted by the Hong Kong Companies Ordinance which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance cover for the directors and officers of the Company and its subsidiaries in respect of potential legal actions against them.

# Directors' Report

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company ("Shares"), underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity	Number of Shares or underlying shares <sup>(1)</sup>				Total interests	Approximate percentage of total issued Shares in the Company
		Personal interests	Family interests	Corporate interests	Other interests		
Tang Wing Fong Terry	Founder of a discretionary trust and beneficial owner	37,263,502 <sup>(2)</sup> shares (L)	–	–	417,717,600 <sup>(2)</sup> shares (L)	454,981,102 shares (L)	53.09%
Wu Yongmou	Founder of a discretionary trust and beneficial owner	271,000 <sup>(3)</sup> shares (L)	–	–	56,931,000 <sup>(3)</sup> shares (L)	57,202,000 shares (L)	6.67%
Tang Kam Sau	Interest in a controlled corporation	–	–	39,192,000 <sup>(4)</sup> shares (L)	–	39,192,000 shares (L)	4.57%
Lu Yongbin	Beneficial owner	3,805,800 <sup>(5)</sup> shares (L)	–	–	–	3,805,800 shares (L)	0.44%
Huang Erwin Steve	Beneficial owner	2,750,000 <sup>(6)</sup> shares (L)	–	–	–	2,750,000 shares (L)	0.32%
Cheung Wah Keung	Beneficial owner	750,000 <sup>(6)</sup> shares (L)	–	–	–	750,000 shares (L)	0.09%
Chan Tsu Ming Louis	Beneficial owner	750,000 <sup>(6)</sup> shares (L)	–	–	–	750,000 shares (L)	0.09%

Notes:

- (1) The letter "L" denotes the Directors' long position in the shares of the Company.
- (2) The disclosed interest represents (i) the interest in 417,717,600 Shares held by Fortune Six Investment Ltd., which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited) and (ii) his personal interest in 37,263,502 Shares.
- (3) The disclosed interest represents (i) the interest in 56,931,000 Shares held by YongWeiDa Investment Limited, which is wholly owned by Wing Lung Bank (Trustee) Limited as trustee of the Wu's Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited) and (ii) his personal interest in 271,000 Shares.
- (4) Ms. Tang Kam Sau is the sole shareholder of Uphigh Global Limited, which holds 39,192,000 Shares. By virtue of the SFO, she is deemed to be interested in Uphigh Global Limited's interest in the Company by virtue of the SFO.
- (5) The disclosed interest represents Mr. Lu Yongbin's (i) personal interest in 3,595,800 Shares and (ii) 210,000 unvested share options granted by the Company.
- (6) These represent the share options of the Company granted to the respective directors under the Company's share option scheme. For details, please refer to the section headed "Pre-IPO share option scheme and share option scheme — Share Option Scheme".

# Directors' Report

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' AND OTHERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

To the best knowledge of the Directors, as at 31 December 2017, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name of shareholder	Capacity/nature of interest	Number of shares <sup>(1)</sup>	Approximate percentage of total issued shares in the Company
Wing Lung Bank (Trustee) Limited <sup>(2)</sup>	Trustee	474,648,600 shares (L)	55.38%
Antopex Limited <sup>(2)</sup>	Nominee for another person	474,648,600 shares (L)	55.38%
Best One International Ltd <sup>(2)(3)</sup>	Interest of controlled corporation	417,717,600 shares (L)	48.74%
Fortune Six Investment Ltd. <sup>(2)(3)</sup>	Beneficial owner	417,717,600 shares (L)	48.74%
YongDingDa Investment Limited <sup>(2)(4)</sup>	Interest of controlled corporation	56,931,000 shares (L)	6.64%
YongWeiDa Investment Limited <sup>(2)(4)</sup>	Beneficial owner	56,931,000 shares (L)	6.64%

Notes:

- (1) The letter "L" denotes a person's long position in the shares of the Company.
- (2) Wing Lung Bank (Trustee) Limited as trustee holds 474,648,600 Shares by virtue of the SFO as follows: (i) 417,717,600 Shares held by Fortune Six Investment Ltd., which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited) and (ii) 56,931,000 Shares held by YongWeiDa Investment Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Wu's Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited).
- (3) The interest of Best One International Limited and Fortune Six Investment Ltd. was also disclosed as the interest of Mr. Tang Wing Fong Terry in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".
- (4) The interest of YongDingDa Investment Limited and YongWeiDa Investment Limited was also disclosed as the interest of Mr. Wu Yongmou in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had an interest or a short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

# Directors' Report

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "CONTINUING CONNECTED TRANSACTIONS" in this report and note 35 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year under review.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year ended 31 December 2017, none of the Directors has any interest in a business apart from the business which competes or is likely to compete, either directly or indirectly, with the Group's business.

### Deed of Non-Competition

Fortune Six Investment Ltd. and Mr. Tang Wing Fong Terry (collectively the "Controlling Shareholders") have entered into a deed of non-competition on 12 June 2015 (the "Deed") with our Company. Pursuant to the Deed, each of the Controlling Shareholders shall and shall procure that its associates (other than members of the Group) not be engaged, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder, partner, agent or otherwise, in the existing business activities of our Group or in any other business that may compete, directly or indirectly with such business.

The Company has received confirmations from the Controlling Shareholders of their compliance with the terms of the Deed. The Controlling Shareholders declared that they have fully complied with the Deed for the year ended 31 December 2017. The independent non-executive directors have reviewed on the confirmations from the Controlling Shareholders and concluded that the Deed has been complied with and has been effectively enforced.

### Directors' rights to acquire shares or debenture

Save as disclosed herein, at no time during the year ended 31 December 2017 was the Group a party to any arrangements to enable the Directors of the Group to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

### Purchase, sale or redemption of listed securities

The Company is empowered by the applicable Companies Law, Cap 22 of the Cayman Islands and the articles of association of the Company to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company for the year ended 31 December 2017.

## Pre-IPO Share Option Scheme and Share Option Scheme

### Pre-IPO Share Option Scheme

A Pre-IPO Share Option Scheme was conditionally adopted on 29 May 2015 and will expire on 2 July 2019. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain of our employees, executives and officers made or may have made to the growth of the Group and/or the listing of Shares on the Stock Exchange. The eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers of our Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of our Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to our Company and/or any of the subsidiaries.



# Directors' Report

The total number of Shares subject to the Pre-IPO Share Option Scheme is 21,024,000 Shares, representing approximately 2.45% of the issued shares as at the date of this report. No further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on the Stock Exchange. A total of 43 eligible participants were granted options under the Pre-IPO Share Option Scheme on 29 May 2015 ("Pre-IPO SOS Grant Date"). The top participant was granted 3,600,000 shares under the scheme.

HK\$1.00 was payable by each Grantee as consideration for grant of the options. The exercise price in respect of each option granted under the Pre-IPO Share Option Scheme is HK\$0.83. The board of directors of the Company determined the exercise price of the Pre-IPO Share Options by taking into account of, among other matters, (i) the contribution of the grantees, being employees of the Group, made or likely to make to the growth of the business of the Group; and (ii) the impact of the Pre-IPO Share Options on the financial results of the Group.

The Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme of the Company may be exercised by each grantee in the following manner:

- (a) approximately 33% of the option shall become vested and exercisable on the 1st anniversary date of the Listing Date (the "1st Vesting Date"), and the exercise period in respect thereof shall commence on the 1st Vesting Date and end on the day immediately before the 1st anniversary date of the 1st Vesting Date (both dates inclusive);
- (b) approximately 33% of the option shall become vested and exercisable on the 2nd anniversary date of the Listing Date (the "2nd Vesting Date"), and the exercise period in respect thereof shall commence on the 2nd Vesting Date and end on the 1st anniversary date of the 2nd Vesting Date (both dates inclusive); and
- (c) approximately 34% of the option shall become vested and exercisable on the 3rd anniversary date of the Listing Date (the "3rd Vesting Date"), and the exercise period in respect thereof shall commence on the 3rd Vesting Date and end on the 1st anniversary date of the 3rd Vesting Date (both dates inclusive).

The following table discloses details of the Company's share options held by senior management and other employees and movements in such holding during the year ended 31 December 2017:

Name	As at				As at		Approximate percentage of the total number of Shares in issue as at the date of this report
	1 January 2017	Exercised	Cancelled	Lapsed	31 December 2017		
Senior management	1,260,000	466,000	–	–	794,000	0.09%	
Other employees	13,867,000	7,322,000	–	909,000	5,636,000	0.66%	
Total	15,127,000	7,788,000	–	909,000	6,430,000	0.75%	

# Directors' Report

The valuation of options granted under the Pre-IPO Share Option Scheme was conducted based on the binomial model with the following assumptions:

	<b>At grant date</b>
(i) Expected volatility	39.79–47.04% per year
(ii) Expected life of options	2.1–4.1
(iii) Average risk-free interest rate	0.44–0.87% per year
(iv) Expected dividend yield	3.3% per year
(v) Estimated rate of leaving service	0% per year

The expected suboptimal early exercise multiple for the grantees is assumed to be 220% times the exercise price. The post-vesting exit rate for the grantees is assumed to be nil per year.

The Group recognised the total expense of approximately HK\$2.6 million (2016: approximately HK\$7.2 million) for the year ended 31 December 2017 in relation to Pre-IPO Share Option Scheme granted by the Company.

## Share Option Scheme

A Share Option Scheme was conditionally adopted on 12 June 2015, which became effective on the Listing Date. The key terms of the scheme are set out below:

- (1) The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:
  - (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
  - (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Eligible Participants refers to:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and

# Directors' Report

- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
  - (a) contribution to the development and performance of our Group;
  - (b) quality of work performed for our Group;
  - (c) initiative and commitment in performing his/her duties; and
  - (d) length of service or contribution to our Group.
- (2) The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares (the "Scheme Limit"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.
- (3) The maximum entitlement of each Eligible Participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.
- (4) An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date.
- (5) 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 ten years from that date.
- (6) Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period ending 12 June 2025.
- (7) The exercise price is determined by the directors of the Company at their discretion and will not be lower than the higher of: (a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (b) the average closing price of the ordinary shares on the Stock Exchange for the 5 business days immediately preceding the offer date; (c) the nominal value of the Company's share.

As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 45,158,000 Shares, representing approximately 5.31% of the total number of Shares in issue.

# Directors' Report

The Company has granted the following share option under the Share Option Scheme:

Date of grant	27 July 2015 (Note 1)	15 September 2016 (Note 2) (Note 3)	1 December 2016 (Note 4)	18 May 2017 (Note 5)
(i) Share Options granted as at the date of grant or 1 January 2017	2,000,000	12,861,000	19,900,000	15,000,000
Share Options exercised during the year	–	10,000	–	–
Share Options cancelled during the year	–	–	–	–
Share Options lapsed during the year	–	1,307,000	8,500,000	–
(ii) Share Options outstanding as at 31 December 2017	2,000,000	11,544,000	11,400,000	15,000,000
Approximate percentage of the total number of Shares in issue as at the date of this report	0.23%	1.35%	1.33%	1.75%
(iii) Exercise price of the Share Options	HK\$3.46	HK\$1.70	HK\$1.986	HK\$2.206
(iv) Closing price immediately before the date of grant	HK\$3.46	HK\$1.56	HK\$2.04	HK\$2.18

Notes:

- (1) On 27 July 2015, share options to subscribe for a total of 2,000,000 Shares were granted to Professor Huang Erwin Steve, a non-executive Director, pursuant to the Share Option Scheme. Maximum of 50% of the share options of the Company ("Share Options") shall become vested and exercisable from 27 July 2016 to 26 July 2019 (both dates inclusive). The remaining 50% of the Share Options shall become vested and exercisable from 27 July 2017 to 26 July 2020 (both dates inclusive). None of the above Share Options was exercised or cancelled or lapsed from the date of grant up to 31 December 2017 and therefore the balance of the outstanding share options as of 31 December 2017 remains the same as 27 July 2015.
- (2) On 15 September 2016, 12,942,000 Share Options were granted to certain eligible participants pursuant to the Share Option Scheme.
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her have been vested on 15 September 2017 and are exercisable at any time during the period commencing on 15 September 2017 and ending on 14 September 2022 (both dates inclusive);
  - 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 15 September 2018 and shall be exercisable at any time during the period commencing on 15 September 2018 and ending on 14 September 2023 (both dates inclusive); and
  - 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 15 September 2019 and shall be exercisable at any time during the period commencing on 15 September 2019 and ending on 14 September 2024 (both dates inclusive).

# Directors' Report

- (3) Among the Share Options granted on 15 September 2016, 3,000,000 Share Options were granted to the following Directors of the Company, details of which are as follows:

Name of Directors	Position	Share	Share	Share	Share	Share	Approximate
		Options as at 1 January 2017	Options exercised during the year	Options cancelled during the year	Options lapsed during the year	Options Outstanding as at 31 December 2017	percentage of shareholding upon full exercise of Share Options granted
Huang Erwin Steve	Non-executive director and external consultant	750,000	–	–	–	750,000	0.09%
Chan Tsu Ming Louis	Independent non-executive director	750,000	–	–	–	750,000	0.09%
Cheung Wah Keung	Independent non-executive director	750,000	–	–	–	750,000	0.09%
Wong Kee Fung Kenneth (passed away on 30 October 2017)	Independent non-executive director	750,000	–	–	–	750,000	0.09%

- (4) On 1 December 2016, 9,900,000 Share Options were granted to certain employees of the Group as "Employee Options" and 10,000,000 Share Options were granted to certain parties who contribute or have contributed to the Group, including an agent developing the Group's sales channels and members of a supplier of the Group as "Contributor Options".

For the Share Options granted to employees who are not senior management:

- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her have been vested on 1 December 2017 and is exercisable at any time during the period commenced on 1 December 2017 and ending on 30 November 2022 (both dates inclusive);
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2018 and shall be exercisable at any time during the period commencing on 1 December 2018 and ending on 30 November 2023 (both dates inclusive); and
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2019 and shall be exercisable at any time during the period commencing on 1 December 2019 and ending on 30 November 2024 (both dates inclusive).

For the Share Options granted to persons who are senior management:

- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her have been vested on 31 January 2018 and is exercisable at any time during the period commenced on 31 January 2018 and ending on 30 January 2023 (both dates inclusive). As the performance targets were not achieved by the senior management, 2,500,000 Employee Options were lapsed on 31 December 2017;
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2019 and shall be exercisable at any time during the period commencing on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); and
- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2020 and shall be exercisable at any time during the period commencing on 31 January 2020 and ending on 30 January 2025 (both dates inclusive).

# Directors' Report

For the Contributor Options granted to members of a supplier of the Group:

- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her have been vested on 1 December 2017 and is exercisable at any time during the period commenced on 1 December 2017 and ending on 30 November 2022 (both dates inclusive);
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2018 and shall be exercisable at any time during the period commencing on 1 December 2018 and ending on 30 November 2023 (both dates inclusive); and
- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 1 December 2019 and shall be exercisable at any time during the period commencing on 1 December 2019 and ending on 30 November 2024 (both dates inclusive).

For the Contributor Options granted to an agent developing the Group's sales channels, as the performance targets were not achieved, 6,000,000 Contributor Options were lapsed on 31 December 2017.

- (5) On 18 May 2017, Share Options to subscribe for a total of 15,000,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme. Among the said Share Options granted, 210,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and a joint company secretary of the Company.

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 18 May 2018 and shall be exercisable at any time during the period commencing on 18 May 2018 and ending on 17 May 2023 (both dates inclusive);

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 18 May 2019 and shall be exercisable at any time during the period commencing on 18 May 2019 and ending on 17 May 2024 (both dates inclusive); and

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 18 May 2020 and shall be exercisable at any time during the period commencing on 18 May 2020 and ending on 17 May 2025 (both dates inclusive).

The valuation of options granted under the Share Option Scheme was conducted based on the binomial model with the following assumptions:

At grant date	18 May 2017	15 September 2016 & 1 December 2016	27 July 2015
(i) Expected volatility	57.63%–61.27% per year	45.69%–65.81% per year	45.69%–46.80% per year
(ii) Expected life of options	6.0–8.0	6.0–8.17	4.0–5.0
(iii) Average risk-free interest rate	1.16%–1.22% per year	1.44%–2.09% per year	1.47%–1.66% per year
(iv) Expected dividend yield	5.32% per year	3.93%–5.32% per year	3.93% per year
(v) Estimated rate of leaving service	25% per year	0%–25% per year	0% per year

The Group recognised the total expense of approximately HK\$15.0 million (FY2016: approximately HK\$2.9 million) during FY2017 in relation to Share Option Scheme granted by the Company.

# Directors' Report

## SHARE AWARD SCHEME

On 20 September 2016, the Company adopted a share award scheme ("Share Award Scheme") with major terms and details set out below. Unless otherwise stated, terms defined in the Company's announcement shall have the same meaning herein:

### (1) Purpose

The purposes of the Scheme are:

- (i) to recognise the contributions by certain Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and
- (ii) to attract suitable personnel for further development of the Group.

### (2) Duration

Subject to any early termination as may be determined by the Board pursuant to the Scheme Rules, the Scheme shall be valid and effective from 20 September 2016 to the date the last of the Awarded Shares has been vested and transferred to the relevant Selected Employee or has lapsed in accordance with the Scheme Rules provided that no Award shall be made on or after the 10th anniversary date of 20 September 2016.

### (3) Administration

- (i) The Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules and the terms of the Trust Deed.
- (ii) The Trustee shall during the trust period hold the Trust Shares, the Awarded Shares, the related income, the returned shares and the residual cash in accordance with the terms of the Trust Deed.
- (iii) The Board may from time to time issue implementation and operation manual for the Scheme.

### (4) Scheme Limit

- (i) The Board shall not make any further award of Awarded Shares which will result in the number of Shares awarded by the Board under the Scheme exceeding 10 per cent (10%) of the issued share capital of the Company as at 20 September 2016.
- (ii) The maximum number of Shares which may be awarded to a Selected Employee under the Scheme shall not exceed 2.5 per cent (2.5%) of the issued share capital of the Company as at 20 September 2016.

### (5) Operation of Scheme

Subject to the Scheme Rules, the Board may, from time to time, at its absolute discretion select any Employee for participation in the Scheme as a Selected Employee and determine the number of the Awarded Shares for each of them and notify the Trustee of its decision. In determining the number of Awarded Shares for a Selected Employee, the Board may take into consideration matters including without limitation, the general financial condition of the Group and the rank and performance of the relevant Selected Employee.

The Board is entitled to impose any conditions (including without limitation, the performance, operating and financial targets and other criteria, if any, to be satisfied by the Selected Employee) as it deems appropriate in its sole and absolute discretion before the Awarded Shares can vest. In addition, Awarded Shares held by the Trustee upon Trust and which are referable to a Selected Employee shall vest to that Selected Employee in accordance with a vesting schedule determined at the discretion of the Board, provided that the Selected Employee shall remain at all times after the grant of the Award and on each relevant Vesting Date(s) as Employee.

# Directors' Report

Subject to the Scheme Rules and compliance with the Listing Rules, the articles of association of the Company, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and any other applicable laws and regulations, the Board may, at any time and from time to time at its absolute discretion having regards to, inter alia, the financial position of the Company, the cash position of the Company and the market price of the Shares at the relevant time, either before or after identification of the Selected Employee(s) (i) cause the Company to issue and allot such number of new Shares to the Trustee as Trust Shares, or (ii) cause the Trustee to purchase the Shares on the market as Trust Shares from the Company's funds.

In the event that the grant of an Award to any connected person of the Company constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, the Company will comply with the applicable reporting, announcement and/or independent shareholders' approval requirements.

## (6) Lapse

Save as provided in the Scheme Rules, in the event that prior to or on the Vesting Date in respect of a Selected Employee, (i) the relevant Selected Employee died, (ii) the relevant Selected Employee ceases to be an Employee, (iii) the relevant subsidiary of the Company by which a Selected Employee is employed ceases to be a subsidiary of the Company (or of a member of the Group), or (iv) an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, the Award shall, unless the Board otherwise agrees, lapse forthwith.

In the event that prior to or on the Vesting Date (i) a Selected Employee is found to be an Excluded Employee, or (ii) a Selected Employee fails to return duly executed transfer documents prescribed by the Trustee for the relevant Awarded Shares within the stipulated period, the relevant part of the Award made to such Selected Employee shall, unless the Board otherwise agrees, lapse forthwith.

## (7) Restrictions

No Award shall be made by the Board and no Shares or payment (as the case may be) shall be delivered or made to the Trustee and no instructions to acquire Shares and allot new Shares shall be given to the Trustee under the Scheme where any Director is in possession of inside information in relation to the Group or where dealings in Shares by Directors are prohibited under any code or requirement of the Listing Rules and all applicable laws from time to time.

The Company shall comply with the relevant Listing Rules when granting the Awarded Shares. If awards are made to the directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules. In FY2016, a total of 6,558,000 Awarded Shares were purchased on the Stock Exchange at prices ranging from HK\$1.79 to HK\$2.30 per share. These Awarded Shares were awarded to a certain employee on 29 November 2016, which shall be vested in tranches of one-third each on every anniversary date of the grant date starting from the 1st anniversary date until the 3rd anniversary date. In FY2017, 2,186,000 awarded shares were vested to such employee. Details of the Share Award Schemes during the year are set out in note 29 to the consolidated financial statements.

According to the rules of the Share Award Scheme, the Board may exercise its discretion to instruct the Trustee to subscribe for new Shares from the Company pursuant the general mandate or a specific mandate to be approved by shareholders in general meeting, in particular, at a time when the Board is of the view that the purchase of old Shares may have a significant impact to the secondary market and may not be in the interest of the shareholders as far as the trading prices and trading volume are concerned before or after identification of the Selected Employees to be allocated with Awarded Shares under the Scheme Rules.

Nevertheless, the Board confirms that it has no current intention to instruct the Trustee to subscribe for new Shares from the Company before identification of the Selected Employees to be allocated with Awarded Shares under the Scheme Rules.



# Directors' Report

## RELATED PARTY TRANSACTIONS

The details of the related party transactions are set out in note 35 to the financial statements. The Company confirms that in relation to the related party transactions for the year ended 31 December 2017, it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 35 to the financial statements constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Company confirms that the following disclosure with respect to the continuing connected transactions has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

The previous property leasing framework agreement between Sky Light Technology and Xinyongyi for the leasing of certain premises in Heyuan, Guangdong, the PRC was expired on 31 December 2017. On 27 December 2017, the Group entered into a new property leasing with Xinyongyi which constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Xinyongyi is a company controlled as to 84% by Mr. Wu Yongmou, an executive Director and therefore Xinyongyi is an associate of a connected person of the Company under the Listing Rules.

A new property leasing framework agreement dated 27 December 2017 (the "Property Leasing Framework Agreement") was entered into between Xinyongyi as landlord and Sky Light Technology as tenant in respect of the premises located at (i) 1/F, 2/F and 4/F of the Research and Development Building; (ii) 3/F to 7/F of the Staff Dormitory Building; (iii) Block No. 2 of the Manufacturing Plant; and (iv) Block No. 4 of the Management Dormitory Building, Xinyongyi Science Park, Ke Shi Er Road, Hi-tech Development Zone, Heyuan, Guangdong, the PRC (the "Xinyongyi Premises") with a gross floor area of approximately 25,000 sq.m. subject to adjustment as required by our business needs, for a term of three years commenced on 1 January 2018 and expiring on 31 December 2020 at a rent of RMB12.7 per sq.m. for the area relating to the plant and RMB12.7 per sq.m. for the area relating to employees' dormitory, and RMB18.7 per sq.m. for the area relating to senior management dormitory. The Xinyongyi Premises consist of the entire premises of our Heyuan production facility and certain other premises used by us as management and staff dormitories. At any time during the term of the Property Leasing Framework Agreement, either Xinyongyi or Sky Light Technology may terminate the Property Leasing Framework Agreement by paying a penalty equivalent to six months' rent to the other party.

The actual amount in FY2017 in respect of the above leasing was HK\$4,740,000 (2016: HK\$5,580,000), which is within the annual cap of HK\$7,900,000 (2016: HK\$7,100,000).

The Group has followed the internal policies and guidelines when determining the price and terms of above transactions.

The independent non-executive directors of the Company have, for the purpose of Rule 14A.55 of the Listing Rules, reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) according to the agreements governing such transactions that are fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

# Directors' Report

## SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules from 1 January 2017 up to the date of this report.

## AUDITORS

Ernst & Young, the auditors of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment.

By the order of the Board

**Tang Wing Fong Terry**

*Chairman*

Hong Kong

28 March 2018

# Independent Auditor's Report



**To the members of Sky Light Holdings Limited**

(Incorporated in the Cayman Islands with limited liability)

## Opinion

We have audited the consolidated financial statements of Sky Light Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 60 to 137, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis of opinion

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

## Key audit matters

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

# Independent Auditor's Report

## Key audit matters *(continued)*

### Key audit matter

### How our audit addressed the key audit matter

#### *Non-current assets impairment review*

The Group's non-current assets mainly include property, plant and equipment, goodwill, intangible assets, available-for-sale investments and other non-current assets. As at 31 December 2017, the Group's non-current assets amounted to HK\$169,636,000. The impairment test and assessment of non-current assets are largely based on management's expectations and estimates of future operation results of the (group of) cash-generating units. This assessment involves significant judgements and estimates made by management.

The accounting policies, significant accounting judgements and estimates and disclosures are included in notes 2.4, 3, 13, 14, 16, 18 and 20 to the consolidated financial statements.

#### *Inventory provision*

Because of the significant changes of the Group's business environment in current year, assessment on inventory provision has become more critical which would involve significant management judgements.

The significant accounting judgements and estimates and disclosures for inventory are included in notes 2.4, 3 and 17 to the consolidated financial statements.

We discussed with management and assessed whether any indicator of impairment exists. For the non-current assets with an impairment indicator, We examined the Group's forecasted cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the accuracy of previous forecasts and the historic data supporting underlying assumptions. Future cash flow assumptions were examined through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. We involved our internal expert to ascertain if the methodology on impairment assessment used by management is acceptable and whether the management's use of parameters such as discount rate and terminal growth rate, are within the industry practice. We also tested the mathematical integrity of management's model.

We evaluated the process, methods and assumptions used by management to determine the provision for inventories against slow-moving, excess and/or obsolete items. When evaluating management's estimation of the future usage of the Group's inventories, we considered the historical sales and upcoming sales orders (if any) placed by the Group's customers. We tested the reliability of the underlying data used by management to calculate the inventory obsolescence provisions, typically an aged inventory analysis showing last movements, and also by re-performing the ageing calculation.

# Independent Auditor's Report

## Other information included in the Annual Report

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

# Independent Auditor's Report

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Choi, Wai Wing.

*Ernst & Young*  
Certified Public Accountants

Hong Kong  
28 March 2018

# Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
REVENUE	5	735,780	1,339,611
Cost of sales		(574,460)	(1,014,204)
Gross profit		161,320	325,407
Other income and gains	5	15,349	28,541
Selling and distribution expenses		(127,202)	(35,773)
Administrative expenses		(143,494)	(114,525)
Research and development expenses	6	(182,548)	(133,062)
Other expenses		(188,683)	(7,015)
Finance costs	7	(1,409)	(1,935)
Share of losses of associates	18	(3,367)	–
(LOSS)/PROFIT BEFORE TAX	6	(470,034)	61,638
Income tax expense	10	(15,266)	(7,910)
(LOSS)/PROFIT FOR THE YEAR		(485,300)	53,728
Attributable to:			
Owners of the parent		(485,300)	53,728
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
— For (loss)/profit for the year		HK(57.5) cents	HK6.6 cents
Diluted			
— For (loss)/profit for the year		HK(57.5) cents	HK6.6 cents

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
(LOSS)/PROFIT FOR THE YEAR		<b>(485,300)</b>	53,728
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments	20	<b>405</b>	(186)
Exchange differences on translation of foreign operations		<b>27,669</b>	(30,047)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<b>28,074</b>	(30,233)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<b>(457,226)</b>	23,495
Attributable to:			
Owners of the parent		<b>(457,226)</b>	23,495



# Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	107,447	121,387
Prepaid land lease payments	15	2,705	2,800
Goodwill	16	–	93,089
Intangible assets	14	11,801	37,512
Investments in associates	18	21,690	–
Available-for-sale investments	20	16,631	61,180
Non-current prepayments	21	6,263	6,879
Deferred tax assets	26	3,099	13,437
<b>Total non-current assets</b>		<b>169,636</b>	336,284
<b>CURRENT ASSETS</b>			
Inventories	17	414,653	169,788
Trade receivables	19	114,423	285,823
Bills receivable		–	9,610
Available-for-sale investments	20	10,805	10,400
Due from a related party	35	835	1,184
Prepayments, deposits and other receivables	21	71,947	91,136
Cash and cash equivalents	22	203,129	480,436
<b>Total current assets</b>		<b>815,792</b>	1,048,377
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	23	89,265	100,984
Trade payables	24	209,843	171,831
Bills payable		18,580	2,593
Other payables and accruals	25	79,159	73,969
Tax payable		17,150	5,475
Due to related parties	35	296	370
<b>Total current liabilities</b>		<b>414,293</b>	355,222
<b>NET CURRENT ASSETS</b>		<b>401,499</b>	693,155
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>571,135</b>	1,029,439

# Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		571,135	1,029,439
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	871	6,126
Total non-current liabilities		871	6,126
Net assets		570,264	1,023,313
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Share capital	27	8,571	8,493
Shares held for Share Award Scheme	29	(9,333)	(14,000)
Reserves	30	571,026	1,028,820
		570,264	1,023,313
Total equity		570,264	1,023,313

**Tang Wing Fong Terry**  
Director

**Lu Yongbin**  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2017

Notes	Attributable to owners of the parent									
	Share capital	Shares held for Share Award	Share premium account	Capital reserve	Share award reserve	Share option reserve	Reserve fund	Retained profits/ (accumulated losses)	Exchange fluctuation reserve	Total equity
	HK\$'000 (note 27)	HK\$'000 (note 29)	HK\$'000 (note 27)	HK\$'000 (note 30)	HK\$'000 (note 29)	HK\$'000 (note 28)	HK\$'000 (note 30)	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	8,493	(14,000)	684,805	148,297	641	17,065	37,050	184,866	(43,904)	1,023,313
Loss for the year	-	-	-	-	-	-	-	(485,300)	-	(485,300)
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments	-	-	-	405	-	-	-	-	-	405
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	27,669	27,669
Total comprehensive loss for the year	-	-	-	405	-	-	-	(485,300)	27,669	(457,226)
Issue of shares by exercise of share options	27(b)	78	-	15,660	-	-	(9,257)	-	-	6,481
Equity-settled share option arrangements	28	-	-	-	-	17,623	-	-	-	17,623
Equity-settled Share Award Scheme arrangement	29	-	-	-	7,345	-	-	-	-	7,345
Reclassification of vested awarded shares	29	-	4,667	(470)	(4,197)	-	-	-	-	-
Final 2016 dividend declared and paid	11	-	-	-	-	-	-	(27,272)	-	(27,272)
At 31 December 2017	8,571	(9,333)	699,995*	148,702*	3,789*	25,431*	37,050*	(327,706)*	(16,235)*	570,264

# Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the parent										
	Notes	Share capital	Shares held for Share Award Scheme	Share premium account	Capital reserve	Share award reserve	Share option reserve	Reserve fund	Retained profits	Exchange fluctuation reserve	Total equity
		HK\$'000 (note 27)	HK\$'000 (note 29)	HK\$'000 (note 27)	HK\$'000 (note 30)	HK\$'000 (note 29)	HK\$'000 (note 28)	HK\$'000 (note 30)	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016		8,003	-	633,364	148,483	-	8,182	37,050	189,561	(13,857)	1,010,786
Profit for the year		-	-	-	-	-	-	-	53,728	-	53,728
Other comprehensive loss for the year:											
Changes in fair value of available-for-sale investments		-	-	-	(186)	-	-	-	-	-	(186)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(30,047)	(30,047)
Total comprehensive income for the year		-	-	-	(186)	-	-	-	53,728	(30,047)	23,495
Issue of shares		480	-	49,920	-	-	-	-	-	-	50,400
Share issue expenses		-	-	(403)	-	-	-	-	-	-	(403)
Shares purchased for Share Award Scheme	29	-	(14,000)	-	-	-	-	-	-	-	(14,000)
Issue of shares by exercise of share options	27(b)	10	-	1,924	-	-	(1,139)	-	-	-	795
Equity-settled share option arrangements	28	-	-	-	-	-	10,022	-	-	-	10,022
Equity-settled Share Award Scheme arrangement	29	-	-	-	-	641	-	-	-	-	641
Final 2015 dividend declared and paid		-	-	-	-	-	-	-	(58,423)	-	(58,423)
At 31 December 2016		8,493	(14,000)	684,805	148,297	641	17,065	37,050	184,866	(43,904)	1,023,313

\* These reserve accounts comprise the consolidated reserves of HK\$571,026,000 (2016: HK\$1,028,820,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss)/profit before tax:		<b>(470,034)</b>	61,638
Adjustments for:			
Finance costs	7	<b>1,409</b>	1,935
Share of losses of associates	18	<b>3,367</b>	–
Interest income	5	<b>(2,526)</b>	(5,497)
Write-down of inventories to net realisable value	6	<b>20,420</b>	31,476
Fair value losses, net:			
Derivative instruments — transactions not qualifying as hedges	6	<b>–</b>	765
Depreciation	6	<b>31,732</b>	35,323
Amortisation of prepaid land lease prepayments	6	<b>95</b>	95
Amortisation of intangible assets	6	<b>7,303</b>	1,652
Gain on disposal of a subsidiary	5	<b>–</b>	(58)
Impairment of other receivable	6	<b>5,430</b>	–
Impairment of goodwill	16	<b>93,089</b>	–
Impairment of available-for-sale investments	6	<b>51,950</b>	–
Impairment of intangible assets	14	<b>21,752</b>	–
Impairment of investments in associates	6	<b>9,695</b>	–
Loss on disposal of items of property, plant and equipment	6	<b>5</b>	2,083
Equity-settled share option expense	28	<b>17,623</b>	10,022
Equity-settled Share Award Scheme expense	29	<b>7,345</b>	641
		<b>(201,345)</b>	140,075
(Increase)/decrease in inventories		<b>(267,953)</b>	139,650
Decrease in trade and bills receivables		<b>181,010</b>	2,639
Decrease in amounts due from a related party		<b>349</b>	498
Decrease in prepayments, deposits and other receivables		<b>13,759</b>	16,860
Increase/(decrease) in trade payables		<b>53,999</b>	(63,962)
Decrease in amounts due to related parties		<b>(74)</b>	(280)
Increase/(decrease) in other payables and accruals		<b>5,190</b>	(83,600)
Cash (used in)/generated from operations		<b>(215,065)</b>	151,880
Tax paid		<b>1,492</b>	(16,834)
Net cash flows (used in)/from operating activities		<b>(213,573)</b>	135,046

# Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Net cash flows (used in)/from operating activities		(213,573)	135,046
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(13,097)	(21,090)
Acquisition of subsidiaries		–	(86,221)
Disposal of a subsidiary		–	58
Purchases of shareholding in associates		(34,752)	–
Purchase of available-for-sale investments		(7,401)	(66,429)
Decrease in derivative financial instruments		–	(4,458)
Interest received	5	2,526	5,497
Decrease in pledged deposits		–	40,679
Gross proceeds from disposals of items of property, plant and equipment		1,469	2,970
Net cash flows used in investing activities		(51,255)	(128,994)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		210,007	240,684
Repayments of bank loans		(221,726)	(351,709)
Interest paid	7	(1,409)	(1,935)
Dividends paid	11	(27,272)	(58,423)
Proceeds from issue of shares	27(a)	–	50,400
Issuance of new shares by exercise of share options	27(b)	6,481	795
Share issue expenses	27(a)	–	(403)
Shares purchased for Share Award Scheme	29	–	(14,000)
Net cash flows used in financing activities		(33,919)	(134,591)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(298,747)	(128,539)
Cash and cash equivalents at beginning of year		480,436	629,990
Effect of foreign exchange rate changes, net		21,440	(21,015)
CASH AND CASH EQUIVALENTS AT END OF YEAR		203,129	480,436
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	151,629	402,885
Non-pledged time deposits with original maturity of less than three months when acquired	22	51,500	77,551
Cash and cash equivalents as stated in the statement of financial position		203,129	480,436
Cash and cash equivalents as stated in the statement of cash flows		203,129	480,436

# Notes to Financial Statements

31 December 2017

## 1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 18 December 2013. The Company's registered office address is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 July 2015.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in:

- Manufacture and distribution of home surveillance cameras
- Manufacture and distribution of action camera products and related accessories
- Manufacture and distribution of digital imaging products
- Manufacture and distribution of other electronic products

In the opinion of the directors of the Company, the holding company and the ultimate holding company of the Company is Fortune Six Investment Ltd., which is incorporated in the British Virgin Islands.

# Notes to Financial Statements

31 December 2017

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sky Light Electronics Limited ("SLE")	Hong Kong 22 August 2006	HK\$22,000,000	100%	–	Investment holding
Sky Light Electronics (Shenzhen) Limited ("Sky Light Shenzhen") # 天彩電子(深圳)有限公司	People's Republic of China (the "PRC")/Mainland China 23 January 2008	HK\$52,469,338	–	100%	Manufacture and sale of camera products and related accessories
Sky Light Imaging Limited ("Sky Light Imaging")	Hong Kong 22 August 2006	HK\$5,000,000	–	100%	Distribution of camera products and related accessories
Sky Light Technology (Heyuan) Limited ("Sky Light Technology (HY)") # 河源市新天彩科技有限公司	PRC/Mainland China 2 March 2010	RMB20,000,000	–	100%	Manufacture and sale of camera products and related accessories

# The English names of the Company's subsidiaries registered in Mainland China represent the translated names of these companies as no English names have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.



# Notes to Financial Statements

31 December 2017

## 2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

# Notes to Financial Statements

31 December 2017

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements to HKFRSs 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12</i>

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements.

The nature and the impact of the amendments are described below:

- (a) Amendments to HKAS 7 require an entity 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.
- (b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.
- (c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements and so no additional information is required to be disclosed.

# Notes to Financial Statements

31 December 2017

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions<sup>1</sup></i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts<sup>1</sup></i>
HKFRS 9	<i>Financial Instruments<sup>1</sup></i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation<sup>2</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
HKFRS 15	<i>Revenue from Contracts with Customers<sup>1</sup></i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers<sup>1</sup></i>
HKFRS 16	<i>Leases<sup>2</sup></i>
Amendments to HKAS 40	<i>Transfers of Investment Property<sup>1</sup></i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration<sup>1</sup></i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments<sup>2</sup></i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to HKFRS 1 and HKAS 28<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

# Notes to Financial Statements

31 December 2017

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

### (a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

### (b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables and financial assets within the next twelve months. The Group has determined there will be no significant change in the amount of provision for impairment losses to be recognised upon the initial adoption of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

# Notes to Financial Statements

31 December 2017

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material.

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 32 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$45,571,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

# Notes to Financial Statements

31 December 2017

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Investments in associates**

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associates is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Business combinations and goodwill** *(Continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### **Fair value measurement**

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.



# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Fair value measurement** *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises. (only if there are revalued assets in the financial statements) unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Related parties

A party is considered to be related to the Group if:

**(a) the party is a person or a close member of that person's family and that person**

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

**(b) the party is an entity where any of the following conditions applies:**

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of that asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Leasehold improvements	18%
Machinery	9%–18%
Motor vehicles	18%–33%
Office and other equipment	18%–50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

### **Software, trademarks and technology licencing agreement**

Software, purchased trademarks and technology *licencing agreement* are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 2 to 10 years.

### **Research and development costs**

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### **Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments and other financial assets**

#### **Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

#### **Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

#### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive changes in fair value presented as other income and gains and negative net changes in fair value presented as finance cost in the statement of profit or loss. These net fair value changes not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Investments and other financial assets** *(Continued)*

#### **Available-for-sale investments**

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### **Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### **Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Impairment of financial assets** *(Continued)*

#### **Financial assets carried at amortised cost** *(Continued)*

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

#### **Available-for-sale financial investments**

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

### **Financial liabilities**

#### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and amounts due to related parties.

#### **Subsequent measurement**

The subsequent measurement of financial liabilities depends on their classification as follows:

#### **Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.



# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the binomial model, further details of which are given in notes 28 and 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expenses, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### **Other employee benefits**

#### **Pension scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss and the consolidated statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss and the consolidated statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### **Dividends**

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

# Notes to Financial Statements

31 December 2017

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company which is Hong Kong dollar at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into Hong Kong dollar at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

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

### Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Company carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

# Notes to Financial Statements

31 December 2017

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

### **Estimation uncertainty**

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

### **Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was nil (2016: HK\$93,089,000). Further details are given in note 16.

### **Useful lives and residual values of property, plant and equipment**

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2017 and 2016 were HK\$107,447,000 and HK\$121,387,000 respectively. Further details are given in note 13.

### **Impairment of non-financial assets (other than goodwill)**

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

### **Provision for inventory write-down**

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, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

### **Withholding taxes arising from the distributions of dividends**

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends. Withholding taxes are provided for the profits of the subsidiary in the PRC which the Group considers that it is probable to be distributed in the foreseeable future.

# Notes to Financial Statements

31 December 2017

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

### **Estimation uncertainty** *(Continued)*

#### **Deferred tax**

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2017 was HK\$77,000 (2016: HK\$4,365,000). The amount of unrecognised tax losses at 31 December 2017 was HK\$486,546,000 (2016: HK\$39,085,000). Further details are contained in note 26 to the financial statements.

A deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) the ODM/JDM business segment focuses on the sales, development and manufacturing of imaging products which mainly comprises home surveillance cameras, action cameras and related accessories and other digital imaging products;
- (b) the ION360 business segment engages in the sales, development of cameras under its own brands.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax.

# Notes to Financial Statements

31 December 2017

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2017	ODM/JDM business HK\$'000	ION360 business HK\$'000	Total HK\$'000
<b>Segment revenue:</b>			
Sales to external customers	712,338	23,442	735,780
Intersegment sales	110,211	–	110,211
	822,549	23,442	845,991
<i>Reconciliation:</i>			
Elimination of intersegment sales	(110,211)	–	(110,211)
Revenue	712,338	23,442	735,780
<b>Segment results</b>	(57,331)	(402,582)	(459,913)
<i>Reconciliation:</i>			
Elimination of intersegment results	(10,121)	–	(10,121)
Loss before tax	(67,452)	(402,582)	(470,034)
<b>Segment assets</b>	1,199,354	197,379	1,396,733
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(411,305)	–	(411,305)
Total assets	788,049	197,379	985,428
<b>Segment liabilities</b>	408,641	417,828	826,469
<i>Reconciliation:</i>			
Elimination of intersegment payables	–	(411,305)	(411,305)
Total liabilities	408,641	6,523	415,164
<b>Other segment information:</b>			
Share of losses of associates	3,367	–	3,367
Impairment losses recognised in the statement of profit or loss**	67,075	114,841	181,916
Depreciation and amortisation	33,239	5,796	39,035
Investments in associates	21,690	–	21,690
Capital expenditure*	12,974	740	13,714



# Notes to Financial Statements

31 December 2017

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016	ODM/JDM business HK\$'000	ION360 business HK\$'000	Total HK\$'000
<b>Segment revenue:</b>			
Sales to external customers	1,333,232	6,379	1,339,611
Intersegment sales	3,254	–	3,254
	1,336,486	6,379	1,342,865
<i>Reconciliation:</i>			
Elimination of intersegment sales	(3,254)	–	(3,254)
Revenue	1,333,232	6,379	1,339,611
<b>Segment results</b>			
Profit/(loss) before tax	86,048	(24,410)	61,638
<b>Segment assets</b>			
Profit/(loss) before tax	86,048	(24,410)	61,638
<b>Segment assets</b>			
Profit/(loss) before tax	86,048	(24,410)	61,638
<i>Reconciliation:</i>			
Elimination of intersegment receivables	(66,375)	–	(66,375)
Total assets	1,292,930	91,731	1,384,661
<b>Segment liabilities</b>			
Profit/(loss) before tax	86,048	(24,410)	61,638
<i>Reconciliation:</i>			
Elimination of intersegment payables	–	(66,375)	(66,375)
Total liabilities	324,998	36,350	361,348
<b>Other segment information:</b>			
Depreciation and amortisation	35,311	1,664	36,975
Capital expenditure*	56,966	586	57,552

\* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

\*\* Impairment losses recognised in the statement of profit or loss includes the impairment of goodwill, the impairment of available-for-sale investments, the impairment of investments in associates, the impairment of other receivables and the impairment of intangible assets.

# Notes to Financial Statements

31 December 2017

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

### Geographical information

#### (a) Revenue from external customers

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
United States of America	<b>451,914</b>	935,702
Mainland China	<b>101,743</b>	115,486
European Union	<b>156,909</b>	229,652
Hong Kong	<b>12,012</b>	44,136
Other countries and areas	<b>13,202</b>	14,635
	<b>735,780</b>	1,339,611

The revenue information above is based on the locations of the customers.

#### (b) Non-current assets

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Mainland China	<b>138,004</b>	131,142
Hong Kong	<b>10,421</b>	124,773
Other countries and areas	<b>1,481</b>	5,752
	<b>149,906</b>	261,667

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

# Notes to Financial Statements

31 December 2017

## 4. OPERATING SEGMENT INFORMATION *(Continued)*

### Information about major customers

Revenue derived from sales to single customer, which accounted for 10% or more of the total revenue, is set out below:

	2017 HK\$'000	2016 HK\$'000
Customer A	169,753	476,546
Customer B	101,896	176,289
Customer C	85,464	114,009

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

	2017 HK\$'000	2016 HK\$'000
<b>Revenue</b>		
Sale of goods	735,780	1,339,611
<b>Other income and gains</b>		
Bank interest income	2,526	5,497
Government grants:		
Related to income*	12,545	7,612
Exchange gains	–	10,503
Gain on disposal of a subsidiary	–	58
Others	278	4,871
	15,349	28,541

\* The amount mainly represents rewards or subsidies for research activities received from the local government. There are no unfulfilled conditions or contingencies relating to these grants.

# Notes to Financial Statements

31 December 2017

## 6. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Notes	2017 HK\$'000	2016 HK\$'000
Cost of inventories sold		554,040	982,728
Depreciation	13	31,732	35,323
Amortisation of intangible assets*	14	7,303	1,652
Research and development expenses		182,548	133,062
		<b>775,623</b>	1,152,765
Impairment of goodwill**	16	93,089	–
Minimum lease payments under operating leases		20,455	16,872
Amortisation of prepaid land lease payments	15	95	95
Auditors' remuneration		2,509	2,183
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		175,375	260,936
Pension scheme contributions		16,630	18,546
Equity-settled share option expense		16,325	8,768
Equity-settled Share Award Scheme expense		7,345	641
		<b>215,675</b>	288,891
		<b>331,823</b>	308,041
Exchange losses/(gains), net		4,244	(10,503)
Write-down of inventories to net realisable value		20,420	31,476
Fair value losses, net:			
Derivative instruments — transactions not qualifying as hedges		–	765
Loss on disposal of items of property, plant and equipment		5	2,083
Impairment of other receivables**		5,430	–
Impairment of investments in associates**	18	9,695	–
Impairment of available-for-sale investments**	20	51,950	–
Impairment of intangible assets**	14	21,752	–
		<b>113,496</b>	23,821
		<b>1,220,942</b>	1,484,627

\* The amortisation of software is included in "Research and development expenses" and the amortisation of other intangible assets is included in "Selling and distribution expenses" in the consolidated statement of profit or loss.

\*\* The impairment of goodwill, the impairment of available-for-sale investments, the impairment of investments in associates, the impairment of other receivables and the impairment of intangible assets are included in "Other expenses" in the consolidated statement of profit and loss.

# Notes to Financial Statements

31 December 2017

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 HK\$'000	2016 HK\$'000
Interest on bank loans	1,409	1,935

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Wu Yongmou and Mr. Lu Yongbin were appointed as executive directors of the Company on 25 March 2015. Professor Huang Erwin Steve and Ms. Tang Kam Sau were appointed as non-executive directors of the Company on 25 March 2015. Mr. Chan Tsu Ming Louis, Mr. Wong Kee Fung Kenneth and Dr. Cheung Wah Keung were appointed as independent non-executive directors of the Company on 12 June 2015. Certain of them, together with an executive director Mr. Tang Wing Fong Terry, received remuneration from certain of the subsidiaries now comprising the Group during the year for their appointment as management of these subsidiaries.

Mr. Wong Kee Fung Kenneth passed away on 30 October 2017. Mr. Tse Yat Hong was appointed as an independent non-executive director of the Company on 5 December 2017.

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 HK\$'000	2016 HK\$'000
Fees	937	960
Other emoluments		
Salaries, allowances and benefits in kind	2,251	2,137
Performance related bonuses*	161	380
Equity-settled share option expense	1,298	1,254
Pension scheme contributions	106	58
	3,816	3,829
	4,753	4,789

\* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

# Notes to Financial Statements

31 December 2017

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

### (a) Independent non-executive directors

	2017		2016	
	Fees HK\$'000	Equity-settled share option expense HK\$'000	Fees HK\$'000	Equity-settled share option expense HK\$'000
Mr. Chan Tsu Ming Louis	240	242	240	69
Dr. Cheung Wah Keung	240	242	240	69
Mr. Wong Kee Fung Kenneth	200	242	240	69
Mr. Tse Yat Hong	17	–	–	–
	<b>697</b>	<b>726</b>	720	207

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

# Notes to Financial Statements

31 December 2017

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

### (b) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2017						
Executive directors:						
Mr. Tang Wing Fong Terry	–	916	68	–	18	1,002
Mr. Wu Yongmou	–	887	–	–	11	898
Mr. Lu Yongbin	–	448	93	50	77	668
	–	2,251	161	50	106	2,568
Non-executive directors:						
Professor Huang Erwin Steve	240	–	–	522	–	762
Ms. Tang Kam Sau	–	–	–	–	–	–
	240	–	–	522	–	762
	240	2,251	161	572	106	3,330

# Notes to Financial Statements

31 December 2017

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

### (b) Executive directors and non-executive directors *(Continued)*

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2016						
Executive directors:						
Mr. Tang Wing Fong Terry	–	842	130	–	18	990
Mr. Wu Yongmou	–	900	132	–	11	1,043
Mr. Lu Yongbin	–	395	118	–	29	542
	–	2,137	380	–	58	2,575
Non-executive directors:						
Professor Huang Erwin Steve	240	–	–	1,047	–	1,287
Ms. Tang Kam Sau	–	–	–	–	–	–
	240	–	–	1,047	–	1,287
	240	2,137	380	1,047	58	3,862

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.



# Notes to Financial Statements

31 December 2017

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no directors (2016: two), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2016: three) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Salaries, allowances and benefits in kind	7,579	2,836
Performance related bonuses	301	717
Equity-settled share option and Share Award Scheme expenses	11,787	2,470
Pension scheme contributions	25	49
	<b>19,692</b>	6,072

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	<b>2017</b>	<b>2016</b>
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,000,001 to HK\$2,500,000	2	–
HK\$3,000,001 to HK\$3,500,000	–	1
Over HK\$3,500,001	1	–
	<b>5</b>	3

During the year, share options were granted to five (2016: three) and a Share Award Scheme was granted to one (2016: Nil) non-director and non-chief executive highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 28 and note 29 to the financial statements. The fair value of such options and Share Award Scheme, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

# Notes to Financial Statements

31 December 2017

## 10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatments were available for two (2016: two) of the Group's principal operating subsidiaries, Sky Light Shenzhen and Sky Light Technology (HY), since they were recognised as High and New Technology Enterprises and they were entitled to a preferential tax rate of 15% during the year.

The Group's subsidiaries in the United States are subject to the federal tax rate of 35%, and also subject to the statutory applicable state corporate income tax of 5%.

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Current — Mainland China	<b>379</b>	11,592
Current — Hong Kong	<b>9,441</b>	4,656
Deferred (note 26)	<b>5,446</b>	(8,338)
Total tax charge for the year	<b>15,266</b>	7,910

# Notes to Financial Statements

31 December 2017

## 10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	Mainland China		Hong Kong		America		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>2017</b>								
Loss before tax	<b>(34,673)</b>		<b>(126,951)</b>		<b>(308,410)</b>		<b>(470,034)</b>	
Tax at the statutory tax rates	<b>(8,668)</b>	<b>25.0</b>	<b>(20,947)</b>	<b>16.5</b>	<b>(123,364)</b>	<b>40.0</b>	<b>(152,979)</b>	<b>32.5</b>
Entities subject to lower statutory income tax rates	<b>(2,963)</b>	<b>8.5</b>	–	–	–	–	<b>(2,963)</b>	<b>0.6</b>
Adjustments in respect of current tax of previous periods	<b>379</b>	<b>(1.1)</b>	–	–	–	–	<b>379</b>	<b>(0.1)</b>
Expenses not deductible for tax	<b>317</b>	<b>(0.9)</b>	<b>16,509</b>	<b>(13.0)</b>	<b>32,441</b>	<b>(10.5)</b>	<b>49,267</b>	<b>(10.5)</b>
Tax losses not recognised	<b>16,195</b>	<b>(46.7)</b>	<b>13,484</b>	<b>(10.6)</b>	<b>93,773</b>	<b>(30.4)</b>	<b>123,452</b>	<b>(26.3)</b>
Income not subject to tax	–	–	<b>(1,890)</b>	<b>1.5</b>	–	–	<b>(1,890)</b>	<b>0.4</b>
Tax charge at the Group's effective tax rate	<b>5,260</b>	<b>(15.2)</b>	<b>7,156</b>	<b>(5.6)</b>	<b>2,850</b>	<b>(0.9)</b>	<b>15,266</b>	<b>(3.2)</b>

	Mainland China		Hong Kong		America		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>2016</b>								
Profit/(loss) before tax	<u>73,575</u>		<u>19,508</u>		<u>(31,445)</u>		<u>61,638</u>	
Tax at the statutory tax rates	18,394	25.0	3,219	16.5	(12,578)	40.0	9,035	14.7
Entities subject to lower statutory income tax rates	(12,480)	(17.0)	(294)	(1.5)	–	–	(12,774)	(20.7)
Expenses not deductible for tax	199	0.3	1,762	9.0	14	(0.0)	1,975	3.2
Tax losses not recognised	1,671	2.3	499	2.6	8,034	(25.6)	10,204	16.5
Income not subject to tax	–	–	(530)	(2.7)	–	–	(530)	(0.9)
Tax charge at the Group's effective tax rate	7,784	10.6	4,656	23.9	(4,530)	14.4	7,910	12.8

# Notes to Financial Statements

31 December 2017

## 11. DIVIDENDS

	2017 HK\$'000	2016 HK\$'000
Proposed final — Nil (2016: HK3.2 cents) per ordinary share	—	27,177

The board of directors of the Company does not recommend any final dividends for 2017.

The actual final dividends paid for the year ended 31 December 2016 was HK\$27,272,000. The difference of HK\$95,000 was the dividends for the 2,981,000 share options which were exercised during the period between the ex-dividend date and the payment date.

## 12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss/earnings per share amount is based on the loss/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 844,383,000 (2016: 810,714,000) in issue during the year.

The calculation of the diluted loss/earnings per share amount is based on the loss/profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

For the year ended 31 December 2017, as an anti-dilutive effect was resulted following the losses incurred by the Group, no adjustment has been made to the basic loss per share amounts.

# Notes to Financial Statements

31 December 2017

## 12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(Continued)

The calculations of basic and diluted (loss)/earnings per share are based on:

	2017 HK\$'000	2016 HK\$'000
<b>Earnings</b>		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic loss/earnings per share calculation:	(485,300)	53,728
	Number of shares	
	2017	2016
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic loss/earnings per share calculation	844,383,000	810,714,000
Effect of dilution — weighted average number of ordinary shares: Share options and shares awarded	—	1,464,000
Adjusted weighted average number of ordinary shares in issue during the year used in the diluted loss/earnings per share calculation	844,383,000	812,178,000
Basic — For (loss)/profit for the year	HK(57.5) cents	HK6.6 cents
Diluted — For (loss)/profit for the year	HK(57.5) cents	HK6.6 cents

# Notes to Financial Statements

31 December 2017

## 13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
<b>31 December 2017</b>						
At 31 December 2016 and at 1 January 2017:						
Cost	6,789	13,888	171,401	3,480	23,354	218,912
Accumulated depreciation	(767)	(7,060)	(76,830)	(1,766)	(11,102)	(97,525)
Net carrying amount	6,022	6,828	94,571	1,714	12,252	121,387
At 1 January 2017, net of accumulated depreciation						
Additions	–	112	8,907	–	2,859	11,878
Disposals	–	(820)	(622)	–	(32)	(1,474)
Depreciation provided during the year (note 6)	(299)	(1,250)	(19,905)	(598)	(9,680)	(31,732)
Exchange realignment	278	350	6,325	95	340	7,388
At 31 December 2017, net of accumulated depreciation	6,001	5,220	89,276	1,211	5,739	107,447
At 31 December 2017:						
Cost	7,109	10,843	191,807	3,574	27,764	241,097
Accumulated depreciation	(1,108)	(5,623)	(102,531)	(2,363)	(22,025)	(133,650)
Net carrying amount	6,001	5,220	89,276	1,211	5,739	107,447

# Notes to Financial Statements

31 December 2017

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
<b>31 December 2016</b>						
At 31 December 2015 and at 1 January 2016:						
Cost	7,098	9,054	175,812	3,985	17,415	213,364
Accumulated depreciation	(491)	(5,175)	(56,111)	(1,611)	(8,912)	(72,300)
Net carrying amount	6,607	3,879	119,701	2,374	8,503	141,064
At 1 January 2016, net of accumulated depreciation	6,607	3,879	119,701	2,374	8,503	141,064
Acquisition of subsidiaries	–	130	141	76	1,168	1,515
Additions	–	5,048	12,918	791	8,254	27,011
Disposals	–	(242)	(2,854)	(693)	(1,264)	(5,053)
Depreciation provided during the year (note 6)	(304)	(1,885)	(28,501)	(713)	(3,920)	(35,323)
Exchange realignment	(281)	(102)	(6,834)	(121)	(489)	(7,827)
At 31 December 2016, net of accumulated depreciation	6,022	6,828	94,571	1,714	12,252	121,387
At 31 December 2016:						
Cost	6,789	13,888	171,401	3,480	23,354	218,912
Accumulated depreciation	(767)	(7,060)	(76,830)	(1,766)	(11,102)	(97,525)
Net carrying amount	6,022	6,828	94,571	1,714	12,252	121,387

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying value of HK\$4,134,686 as at 31 December 2017 (31 December 2016: HK\$4,092,000) have not yet been issued by the relevant Mainland China authorities. The Group is in the process of obtaining these certificates.

# Notes to Financial Statements

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## 14. INTANGIBLE ASSETS

	Trademarks HK\$'000	Technology licencing agreement HK\$'000	Software HK\$'000	Total HK\$'000
<b>31 December 2017</b>				
Cost at 1 January 2017, net of accumulated amortisation	23,512	3,565	10,435	37,512
Additions	631	–	1,205	1,836
Amortisation provided during the year (note 6)	(3,028)	(2,876)	(1,399)	(7,303)
Impairment during the year (note 6)	(21,071)	(681)	–	(21,752)
Exchange realignment	201	36	1,271	1,508
At 31 December 2017, net of accumulated amortisation	245	44	11,512	11,801
At 31 December 2017:				
Cost	3,666	3,395	15,669	22,730
Accumulated amortisation	(3,421)	(3,351)	(4,157)	(10,929)
Net carrying amount	245	44	11,512	11,801
<b>31 December 2016</b>				
Cost at 1 January 2016, net of accumulated amortisation	–	–	11,529	11,529
Acquisition of subsidiaries	23,905	4,040	–	27,945
Additions	–	–	1,081	1,081
Amortisation provided during the year (note 6)	(393)	(475)	(784)	(1,652)
Exchange realignment	–	–	(1,391)	(1,391)
At 31 December 2016, net of accumulated amortisation	23,512	3,565	10,435	37,512
At 31 December 2016:				
Cost	23,905	4,040	13,193	41,138
Accumulated amortisation	(393)	(475)	(2,758)	(3,626)
Net carrying amount	23,512	3,565	10,435	37,512



# Notes to Financial Statements

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## 15. PREPAID LAND LEASE PAYMENTS

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Carrying amount at 1 January	2,895	2,990
Recognised during the year (note 6)	(95)	(95)
Carrying amount at 31 December	2,800	2,895
Current portion included in prepayments, deposits and other receivables (note 21)	(95)	(95)
Non-current portion	2,705	2,800

The Group's leasehold land is situated in Hong Kong and held under a medium term lease.

## 16. GOODWILL

	HK\$'000
Cost at 1 January 2016, net of accumulated impairment	–
Acquisition of a subsidiary	93,089
Cost and net carrying amount at 31 December 2016	93,089
At 31 December 2016:	
Cost	93,089
Accumulated impairment	–
Net carrying amount	93,089
Cost at 1 January 2017, net of accumulated impairment	93,089
Impairment during the year (note 6)	(93,089)
Cost and net carrying amount at 31 December 2017	–
At 31 December 2017:	
Cost	93,089
Accumulated impairment	(93,089)
Net carrying amount	–

# Notes to Financial Statements

31 December 2017

## 16. GOODWILL *(Continued)*

### Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Industrial products cash-generating unit

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 23.3% (2016: 25.6%). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 3% (2016: 3%).

Assumptions were used in the value in use calculation of the industrial products cash-generating units for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

**Budgeted gross margins** — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

**Discount rate** — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

**Raw materials price inflation** — The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for local markets from where the raw materials are sourced.

The values assigned to the key assumptions on market development of industrial products, discount rates and raw materials price inflation are consistent with external information sources.

Goodwill acquired in the business combination of iON360 Group on 31 October 2016. Management performed impairment testing of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. During the year ended 31 December 2017, due to the disappointed market expectation of the main new virtual reality product of iON360 Group, and the significant uncertainty of future development of virtual reality industry, affecting the recoverable amount of the cash generating units of iON360 Group, goodwill of approximately HK\$93,089,000 (2016: Nil) was impaired.

## 17. INVENTORIES

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Raw materials	<b>186,753</b>	45,380
Work in progress	<b>93,738</b>	39,064
Finished goods	<b>134,162</b>	85,344
	<b>414,653</b>	169,788

# Notes to Financial Statements

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## 18. INVESTMENTS IN ASSOCIATES

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Share of net assets	21,690	–
Goodwill on acquisition	9,695	–
	<b>31,385</b>	–
Provision for impairment (note 6)	(9,695)	–
	<b>21,690</b>	–

The Group's shareholding in the associates comprise equity shares held by Company or held through a wholly-owned subsidiary of the Company.

The following table illustrates the financial information of the Group's associates that are not material:

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Share of the associates' losses for the year	(3,367)	–
Share of the associates' total comprehensive losses	(3,367)	–
Carrying amount of the Group's investments in the associates	21,690	–

## 19. TRADE RECEIVABLES

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Trade receivables	114,423	285,823
Impairment	–	–
	<b>114,423</b>	285,823

# Notes to Financial Statements

31 December 2017

## 19. TRADE RECEIVABLES *(Continued)*

The Group requires most of its customers to make payment in advance, however, the Group grants certain credit periods to those customers with good payment history. The credit period for specific customers is considered on a case-by-case basis and sets out in the sales contracts, as appropriate.

The Group seeks to maintain strict control over its outstanding receivables with the internal control department minimising credit risk. Overdue balances are reviewed regularly by senior management.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and the carrying amounts of the trade receivables approximate to their fair values.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Within 1 month	<b>56,809</b>	252,171
1 to 2 months	<b>25,840</b>	14,206
2 to 3 months	<b>13,689</b>	6,844
Over 3 months	<b>18,085</b>	12,602
	<b>114,423</b>	285,823

An ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Neither past due nor impaired	<b>108,252</b>	248,652
Less than 1 month past due	<b>3,002</b>	16,976
1 to 3 months past due	<b>3,169</b>	20,195
	<b>114,423</b>	285,823

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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.

# Notes to Financial Statements

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## 20. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK\$'000	2016 HK\$'000
<b>Non-current assets</b>		
Unlisted equity investments, at cost	16,631	61,180
<b>Current</b>		
Unlisted equity investments, at fair value	10,805	10,400

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK\$405,000 (2016: loss amounted to HK\$186,000), of which none (2016: Nil) was reclassified from other comprehensive income to the statement of profit or loss for the year.

As at 31 December 2017 and 2016, the Group's current available-for-sale investments represented investments in several wealth management contracts. The Group's non-current available-for-sale investments represented investments in unlisted equity. These unlisted equity investments were made in start-up companies which have synergy with the Group's business.

As at 31 December 2017, certain unlisted equity investments with a carrying amount of HK\$16,631,000 (2016: HK\$61,180,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. During the year, an impairment loss of HK\$51,950,000 (2016: Nil) has been recognised, of which none (2016: Nil) was reclassified from other comprehensive income to the statement of profit or loss for the year.

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
<b>Non-current assets</b>		
Non-current prepayments	6,263	6,879
<b>Current assets</b>		
Prepayments	19,554	8,137
Deposits and other receivables	52,298	82,904
Prepaid land lease payments (note 15)	95	95
	71,947	91,136

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

# Notes to Financial Statements

31 December 2017

## 22. CASH AND CASH EQUIVALENTS

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Cash and bank balances	<b>151,629</b>	402,885
Time deposits	<b>51,500</b>	77,551
Cash and cash equivalents	<b>203,129</b>	480,436
Cash and bank balances denominated in		
— Renminbi ("RMB")	<b>33,719</b>	72,858
— United States dollars ("US\$")	<b>43,569</b>	232,101
— HK\$	<b>125,200</b>	174,136
— Other currencies	<b>641</b>	1,341
Cash and cash equivalents	<b>203,129</b>	480,436

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$33,719,000 (2016: HK\$72,858,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

# Notes to Financial Statements

31 December 2017

## 23. INTEREST-BEARING BANK BORROWINGS

Current	2017			2016		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Bank loans — unsecured	1.8 – 2.9	2018	89,265	1.8 – 2.2	2017	100,984

	2017 HK\$'000	2016 HK\$'000
<b>Analysed into:</b>		
Bank loans:		
Within one year	89,265	100,984

The Group's bank facilities amounting to HK\$275,817,000 (2016: HK\$290,755,000), of which HK\$89,265,000 (2016: HK\$100,984,000) had been utilised as at the end of the year.

All borrowings are denominated in United States dollars.

## 24. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the year, based on the invoice date, is as follows:

	2017 HK\$'000	2016 HK\$'000
Within 1 month	99,727	85,476
1 to 2 months	68,345	43,548
2 to 3 months	26,845	20,444
Over 3 months	14,926	22,363
	<b>209,843</b>	<b>171,831</b>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 120 days.

# Notes to Financial Statements

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## 25. OTHER PAYABLES AND ACCRUALS

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Deposits received from customers	<b>24,185</b>	10,704
Other payables	<b>16,809</b>	19,979
Salary and welfare payables	<b>35,646</b>	39,920
Accruals	<b>2,519</b>	3,366
	<b>79,159</b>	73,969

Salary and welfare payables are non-interest-bearing and are payable on demand. Other payables and accruals are non-interest-bearing and are due to mature within one year.

## 26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

	<b>2017</b> Inventory provision HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 1 January 2017	<b>9,072</b>	<b>4,365</b>	<b>13,437</b>
Deferred tax charged to the statement of profit or loss during the year (note 10)	<b>(6,456)</b>	<b>(4,288)</b>	<b>(10,744)</b>
Exchange difference	<b>406</b>	–	<b>406</b>
At 31 December 2017	<b>3,022</b>	<b>77</b>	<b>3,099</b>



# Notes to Financial Statements

31 December 2017

## 26. DEFERRED TAX *(Continued)*

### Deferred tax liabilities

	2017		
	Fair value adjustments arising from acquisition of a subsidiary HK\$'000	Withholding taxes HK\$'000	Total HK\$'000
At 1 January 2017	5,255	871	6,126
Deferred liability credited to the statement of profit or loss during the year (note 10)	(5,298)	–	(5,298)
Exchange difference	43	–	43
At 31 December 2017	–	871	871

### Deferred tax assets

	2016		
	Inventory provision HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 1 January 2016	5,354	–	5,354
Deferred tax credited to the statement of profit or loss during the year (note 10)	3,718	4,365	8,083
At 31 December 2016	9,072	4,365	13,437

# Notes to Financial Statements

31 December 2017

## 26. DEFERRED TAX *(Continued)*

### Deferred tax liabilities

	<b>2016</b>		
	Fair value adjustments arising from acquisition of a subsidiary HK\$'000	Withholding taxes HK\$'000	Total HK\$'000
At 1 January 2016	–	871	871
Acquisition of a subsidiary	5,510	–	5,510
Deferred tax credited to the statement of profit or loss during the year (note 10)	(255)	–	(255)
At 31 December 2016	5,255	871	6,126

The Group has tax losses arising in Hong Kong of HK\$71,832,000 (2016: HK\$9,049,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of HK\$117,282,000. (2016: HK\$9,950,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in United States of America of HK\$297,432,000. (2016: HK\$20,086,000) that will expire in one to twenty years for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the following items:

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
Tax losses	<b>486,546</b>	39,085
Deductible temporary differences	<b>29,220</b>	17,706
	<b>515,766</b>	56,791

The above tax losses and deductible temporary differences are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

# Notes to Financial Statements

31 December 2017

## 26. DEFERRED TAX *(Continued)*

### Deferred tax liabilities *(Continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% for the year. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 27. SHARE CAPITAL

### Shares

	2017 HK\$'000	2016 HK\$'000
Issued and fully paid: 857,075,000 (2016: 849,277,000) ordinary shares	8,571	8,493

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue HK\$'000	Share capital HK\$'000	Share premium account HK\$'000	Total
At 1 January 2016	800,319,000	8,003	633,364	641,367
Issue of new shares (a)	48,000,000	480	49,920	50,400
Share options exercised (b)	958,000	10	1,924	1,934
	849,277,000	8,493	685,208	693,701
Share issue expenses (a)	–	–	(403)	(403)
At 31 December 2016 and 1 January 2017	849,277,000	8,493	684,805	693,298
Share options exercised (b)	7,798,000	78	15,660	15,738
Reclassification of vested awarded shares (note 29(d))	–	–	(470)	(470)
At 31 December 2017	857,075,000	8,571	699,995	708,566

# Notes to Financial Statements

31 December 2017

## 27. SHARE CAPITAL *(Continued)*

### Shares *(Continued)*

Notes:

- (a) On 3 October 2016, the Company placed an aggregate of 48,000,000 ordinary shares of HK\$0.01 each for a total consideration of HK\$50,400,000, before share issue expenses of HK\$403,000. The consideration received in excess of the par value of these placed shares of approximately HK\$49,517,000 was credited to the share premium account.
- (b) The subscription rights attaching to 7,788,000 (2016: 958,000) share options were exercised at the subscription price of HK\$0.83 (2016: HK\$0.83) per share and 10,000 (2016: Nil) share options were exercised at the subscription price of HK\$1.7 per share (note 28) during the year ended 31 December 2017, resulting in the issue of 7,798,000 (2016: 958,000) shares for a total cash consideration of HK\$6,481,000 (2016: HK\$795,000). An amount of HK\$9,257,000 (2016: HK\$1,139,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

## 28. SHARE OPTION SCHEMES

The Company has adopted two share option schemes (the "Schemes", including the "Pre-IPO Share Option Scheme" and "Share Option Scheme" for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Schemes include employees, advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the board of directors of the Company, in its sole discretion, consider have contributed or may contribute to the Group.

### Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme became effective on 29 May 2015. The following share options were outstanding under the Pre-IPO Share Option Scheme of the Company during the year:

Date of grant	Numbers of share options				At 31 December 2017	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year			
29/05/2015	15,127,000	-	(7,788,000)	(909,000)	6,430,000	02/07/2016-02/07/2019	0.83

Date of grant	Numbers of share options				At 31 December 2016	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year			
29/05/2015	18,864,000	-	(958,000)	(2,779,000)	15,127,000	02/07/2016-02/07/2019	0.83

Notes:

- a. One-third of these share options shall become vested on the 1st anniversary date of 2 July 2015, a further one-third shall become vested on the 2nd anniversary date of 2 July 2015, and the remaining one-third shall become vested on the 3rd anniversary date of 2 July 2015.
- b. The fair value of the share options granted in 2015 was HK\$24,973,000 (HK\$1.18783 each), of which the Group recognised a share option expense of HK\$2,607,000 (2016: HK\$7,163,000) during the year ended 31 December 2017.

# Notes to Financial Statements

31 December 2017

## 28. SHARE OPTION SCHEMES *(Continued)*

### Pre-IPO Share Option Scheme *(Continued)*

Notes: *(Continued)*

- c. The following assumptions were used to derive the fair value, using the binomial model:

Options granted on 29 May 2015

	At grant date
(i) Expected volatility	39.79 – 47.04% per year
(ii) Expected life of options	2.1 – 4.1
(iii) Average risk-free interest rate	0.44 – 0.87% per year
(iv) Expected dividend yield	3.3% per year
(v) Estimated rate of leaving service	0% per year

The 7,788,000 share options exercised during the year resulted in the issue of 7,788,000 ordinary shares of the Company and new share capital of HK\$78,000 (before issue expenses), as further detailed in note 27(b) to the financial statements.

As at 31 December 2017, the Company had 6,430,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,430,000 additional ordinary shares of the Company and additional share capital of HK\$64,000 and share premium of HK\$12,911,000 (before issue expenses).

### Share Option Scheme

The following share options were outstanding under the Share Option Scheme of the Company during the year:

Date of grant	Numbers of share options				At 31 December 2017	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year			
(i) 27/07/2015	2,000,000	–	–	–	2,000,000	27/07/2016-26/07/2020	3.46
(ii) 15/09/2016	12,861,000	–	(10,000)	(1,307,000)	11,544,000	15/09/2017-14/09/2024	1.70
(iii) 01/12/2016	19,900,000	–	–	(8,500,000)	11,400,000	01/12/2017-30/01/2025	1.986
(iv) 18/05/2017	–	15,000,000	–	–	15,000,000	18/05/2018-17/05/2025	2.206
	34,761,000	15,000,000	(10,000)	(9,807,000)	39,944,000		

# Notes to Financial Statements

31 December 2017

## 28. SHARE OPTION SCHEMES *(Continued)*

### Share Option Scheme *(Continued)*

Date of grant	Numbers of share options			At 31 December 2016	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2016	Granted during the year	Lapsed during the year			
(i) 27/07/2015	2,000,000	–	–	2,000,000	27/07/2016-26/07/2020	3.46
(ii) 15/09/2016	–	12,942,000	(81,000)	12,861,000	15/09/2017-14/09/2024	1.70
(iii) 01/12/2016	–	19,900,000	–	19,900,000	01/12/2017-30/01/2025	1.986
	2,000,000	32,842,000	(81,000)	34,761,000		

Notes:

- (i) One-half of these share options are exercisable on the 1st anniversary date of 27 July 2015, and the remaining one-half are exercisable on the 2nd anniversary date of 27 July 2015.

The fair value of the share options granted in 2015 was HK\$1,814,000 (HK\$0.907 each), of which the Group recognised a share option expense of HK\$280,000 (2016: HK\$978,000) during the year ended 31 December 2017.

- (ii) One-third of these share options shall become vested on the 1st anniversary date of 15 September 2016, a further one-third shall become vested on the 2nd anniversary date of 15 September 2016, and the remaining one-third shall become vested on the 3rd anniversary date of 15 September 2016.

The fair value of the share options granted during the year was HK\$8,111,000 (HK\$0.62672 each), of which the Group recognised a share option expense of HK\$3,610,000 (2016: HK\$1,191,000) during the year ended 31 December 2017.

- (iii) One-third of these share options shall become vested on the 1st anniversary date of 1 December 2016, a further one-third shall become vested on the 2nd anniversary date of 1 December 2016, and the remaining one-third shall become vested on the 3rd anniversary date of 1 December 2016.

The fair value of the share options granted during the year was HK\$13,990,000 (HK\$0.703 each), of which the Group recognised a share option expense of HK\$7,585,000 (2016: HK\$690,000) during the year ended 31 December 2017.

- (iv) One-third of these share options shall become vested on the 1st anniversary date of 18 May 2017, a further one-third shall become vested on the 2nd anniversary date of 18 May 2017, and the remaining one-third shall become vested on the 3rd anniversary date of 18 May 2017.

The fair value of the share options granted on 18 May 2017 was HK\$10,416,000 (HK\$0.6944 each), of which the Group recognised a share option expense of HK\$3,541,000 (2016: Nil) during the year ended 31 December 2017.

# Notes to Financial Statements

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## 28. SHARE OPTION SCHEMES *(Continued)*

### Share Option Scheme *(Continued)*

The following assumptions were used to derive the fair value, using the binomial model:

At grant date	18 May 2017	15 September 2016 and 1 December 2016	27 July 2015
(i) Expected volatility	<b>57.63% – 61.27% per year</b>	45.69%–65.81% per year	45.69%–46.80% per year
(ii) Expected life of options	<b>6.0-8.0</b>	6.0-8.17	4.0–5.0
(iii) Average risk-free interest rate	<b>1.16% – 1.22% per year</b>	1.44%–2.09% per year	1.47%–1.66% per year
(iv) Expected dividend yield	<b>5.32% per year</b>	3.93%–5.32% per year	3.93% per year
(v) Estimated rate of leaving service	<b>25% per year</b>	0%–25% per year	0% per year

The 10,000 share options exercised during the year resulted in the issue of 10,000 ordinary shares of the Company and new share capital of HK\$100 (before issue expenses), as further detailed in note 27(b) to the financial statements.

As at 31 December 2017, the Company had 39,944,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 39,944,000 additional ordinary shares of the Company and additional share capital of HK\$399,000 and share premium of HK\$109,356,000 (before issue expenses).

## 29. SHARE AWARD SCHEME

A share award scheme was adopted on 20 September 2016 (the "Share Award Scheme"). The Share Award Scheme is to recognise the contributions made by certain employees and to provide them with incentives in order to maintain the continual operation and development of the Group; and to attract suitable personnel for further development of the Group.

The awarded shares will be acquired by an independent trustee ("the Trustee") from the open market by utilising the Company's resources provided to the Trustee. The maximum number of shares in respect of which shares may be granted under the Share Award Scheme and which may be awarded to a selected employee shall not exceed 10% and 2.5% respectively of the issued share capital of the Company as at 20 September 2016.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Scheme, the scheme shall be valid and effective from 20 September 2016 to the date the last of the awarded shares has been vested and transferred to the relevant selected employee or has lapsed in accordance with the terms provided that no award shall be made on or after 10 years of 20 September 2016.

# Notes to Financial Statements

31 December 2017

## 29. SHARE AWARD SCHEME *(Continued)*

The following awarded shares were outstanding under the Share Award Scheme of the Company during the year:

Date of grant	Numbers of awarded shares				At 31 December 2017	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2017	Granted during the year	Vested during the year	Lapsed during the year			
29/11/2016	6,558,000	–	(2,186,000)	–	4,372,000	19/12/2017-19/12/2019	–

Notes:

- In 2016, based on the Company's instructions, the Trustee purchased a total of 6,558,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK\$1.79 to HK\$2.30 per share at a total consideration (including related transaction costs) of approximately HK\$14,000,000.
- The Company granted 6,558,000 shares to a certain employee on 29 November 2016, which will be vested in tranches of one-third each on every anniversary date of the grant date starting from the 1st anniversary date until the 3rd anniversary date.
- The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.92) on the day of the grant, and amounted to HK\$12,591,000, of which the Group recognised a Share Award Scheme expense of HK\$7,345,000 (2016: HK\$641,000) during the year ended 31 December 2017.
- During the year, a total of 2,186,000 awarded shares were vested. The cost and the fair value of the related vested shares were HK\$4,667,000 and HK\$4,197,000 respectively. The difference of HK\$470,000 was debited to the share premium account. As at 31 December 2017, the carrying amount of Shares held for Share Award Scheme was HK\$9,333,000 (2016: HK\$14,000,000).

## 30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 64 to 65 of the financial statements.

### Reserve fund

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

## 31. PLEDGE OF ASSETS

The Group had no assets that were pledged for the Group's bank loans and other liabilities.



# Notes to Financial Statements

31 December 2017

## 32. OPERATING LEASE ARRANGEMENTS

### As lessee

The Group leases certain of its plant, office premises and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to eight years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	18,034	14,808
In the second to fifth years, inclusive	24,511	26,087
After five years	3,026	4,040
	45,571	44,935

## 33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the year:

	2017 HK\$'000	2016 HK\$'000
Contracted, but not provided for:		
Unpaid investment amount	–	22,359
Plant and machinery	1,419	2,576
	1,419	24,935

## 34. CONTINGENT LIABILITIES

The Group had no significant contingent liability as at the end of the year.

# Notes to Financial Statements

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## 35. RELATED PARTY TRANSACTIONS AND BALANCES

- (1) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	2017 HK\$'000	2016 HK\$'000
Rental expenses:		
XinYongYi Technology Park (Heyuan) Limited ("XinYongYi")	4,740	5,580

The rental expenses were paid to XinYongYi, which was controlled by a director of a subsidiary of the Group, for a lease of plant and office premises located in Heyuan and were charged in the form of monthly rental of HK\$395,000 and HK\$465,000 for the years ended 31 December 2017 and 2016. The rental was determined according to negotiation with the counterparties.

- (2) **Compensation of key management personnel of the Group**

	2017 HK\$'000	2016 HK\$'000
Short term employee benefits	3,135	5,617
Equity-settled share option and Share Award Scheme expenses	1,146	1,622
Post-employment benefits	113	129
<b>Total compensation paid to key management personnel</b>	<b>4,394</b>	<b>7,368</b>

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

# Notes to Financial Statements

31 December 2017

## 35. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (3) Outstanding balances with related parties

	2017 HK\$'000	2016 HK\$'000
Due from a related party XinYongYi	835	1,184
Due to related parties Shenzhen Yongyida Electronics Co., Ltd. ("YongYiDa")	42	39
XinYongYi	254	331
	296	370

These balances are unsecured, interest-free and repayable on demand. The carrying amounts of these balances approximate their fair values. All the above balances were generated from operating activities.

# Notes to Financial Statements

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## 36. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows:

**2017**

Financial assets	Loans and receivables HK\$'000	Available-for-sale financial assets HK\$'000	Total HK\$'000
Trade receivables	114,423	–	114,423
Financial assets included in deposits and other receivables	32,021	–	32,021
Cash and cash equivalents	203,129	–	203,129
Available-for-sale investments	–	27,436	27,436
Due from a related party	835	–	835
	<b>350,408</b>	<b>27,436</b>	<b>377,844</b>

Financial liabilities	Financial liabilities at amortised cost HK\$'000
Interest-bearing bank borrowings	89,265
Trade payables	209,843
Bills payable	18,580
Financial liabilities included in other payables and accruals	54,974
Due to related parties	296
	<b>372,958</b>

# Notes to Financial Statements

31 December 2017

## 36. Financial Instruments by Category *(Continued)*

**2016**

Financial assets	Loans and receivables HK\$'000	Available-for-sale financial assets HK\$'000	Total HK\$'000
Trade receivables	285,823	–	285,823
Bills receivable	9,610	–	9,610
Financial assets included in deposits and other receivables	69,155	–	69,155
Cash and cash equivalents	480,436	–	480,436
Available-for-sale investments	–	71,580	71,580
Due from a related party	1,184	–	1,184
	846,208	71,580	917,788
Financial liabilities			Financial liabilities at amortised cost HK\$'000
Interest-bearing bank borrowings			100,984
Trade payables			171,831
Bills payable			2,593
Financial liabilities included in other payables and accruals			63,266
Due to related parties			370
			339,044

## 37. Fair Value and Fair Value Hierarchy of Financial Instruments

At 31 December 2017 and 2016, the fair values of the Group's financial assets and financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, amounts due from/to related parties, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

# Notes to Financial Statements

31 December 2017

## 37. Fair Value and Fair Value Hierarchy of Financial Instruments *(Continued)*

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Assets measured at fair value:

As at 31 December 2017	Fair value measurement using quoted prices in active markets (Level 1) HK\$'000
Available-for-sale investments:	
Debt investments	<b>10,805</b>
<hr/>	
As at 31 December 2016	Fair value measurement using quoted prices in active markets (Level 1) HK\$'000
Available-for-sale investments:	
Debt investments	10,400

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 and 2016.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

# Notes to Financial Statements

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## 38. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables, and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

### Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales in currencies other than the units' functional currencies. Approximately 87.6% and 90.6% of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 52.7% and 61.2% of inventory costs were denominated in the units' functional currencies for the years ended 31 December 2017 and 2016 respectively.

The following table demonstrates the sensitivity at the end of the year to a reasonably possible change in the US\$ exchange rate and RMB exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit/(loss) before tax HK\$'000	Increase/ (decrease) In equity* HK\$'000
<b>As at 31 December 2017</b>			
If HK\$ weakens against US\$	5	2,170	1,812
If HK\$ strengthens against US\$	(5)	(2,170)	(1,812)
If HK\$ weakens against RMB	5	5,725	4,780
If HK\$ strengthens against RMB	(5)	(5,725)	(4,780)
<b>As at 31 December 2016</b>			
If HK\$ weakens against US\$	5	3,814	3,185
If HK\$ strengthens against US\$	(5)	(3,814)	(3,185)
If HK\$ weakens against RMB	5	1,654	21,227
If HK\$ strengthens against RMB	(5)	(1,654)	(21,227)

\* Excluding retained profits

# Notes to Financial Statements

31 December 2017

## 38. Financial Risk Management Objectives and Policies *(Continued)*

### **Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, and financial assets included in prepayments, deposits and other receivables arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group had certain concentrations of credit risk as 75.7% and 71.1% of the Group's trade receivables were due from the Group's five largest customers as at 31 December 2017 and 2016, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.



# Notes to Financial Statements

31 December 2017

## 38. Financial Risk Management Objectives and Policies *(Continued)*

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of financial liabilities as at 31 December 2017 and 2016, based on the contractual undiscounted payments, is as follows:

	<b>2017</b>			
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	Total HK\$'000
Interest-bearing bank borrowings	–	<b>76,675</b>	<b>13,060</b>	<b>89,735</b>
Trade payables	–	<b>194,917</b>	<b>14,926</b>	<b>209,843</b>
Bills payable	–	<b>9,749</b>	<b>8,831</b>	<b>18,580</b>
Due to related parties	–	<b>296</b>	–	<b>296</b>
Financial liabilities included in other payables and accruals	<b>54,974</b>	–	–	<b>54,974</b>
	<b>54,974</b>	<b>281,637</b>	<b>36,817</b>	<b>373,428</b>

	<b>2016</b>			
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	Total HK\$'000
Interest-bearing bank borrowings	–	75,645	25,582	101,227
Trade payables	–	149,468	22,363	171,831
Bills payable	–	2,593	–	2,593
Due to related parties	–	370	–	370
Financial liabilities included in other payables and accruals	63,266	–	–	63,266
	63,266	228,076	47,945	339,287

# Notes to Financial Statements

31 December 2017

## 38. Financial Risk Management Objectives and Policies *(Continued)*

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio. The gearing ratio is defined as interest-bearing bank borrowings divided by total equity. The gearing ratio at the end of the year was as follows:

	2017 HK\$'000	2016 HK\$'000
Interest-bearing bank borrowings	89,265	100,984
Total equity	570,264	1,023,313
Gearing ratio	15.7%	9.9%

# Notes to Financial Statements

31 December 2017

## 39. Statement of Financial Position of the Company

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000
NON-CURRENT ASSETS		
Amounts due from subsidiaries	<b>587,413</b>	610,031
Investment in a subsidiary	<b>22,000</b>	22,000
Total non-current assets	<b>609,413</b>	632,031
CURRENT ASSETS		
Cash and cash equivalents	<b>989</b>	1,430
Total current assets	<b>989</b>	1,430
CURRENT LIABILITIES		
Other payables	<b>124</b>	169
Total current liabilities	<b>124</b>	169
NET CURRENT ASSETS	<b>865</b>	1,261
Net assets	<b>610,278</b>	633,292
EQUITY		
Issued capital	<b>8,571</b>	8,493
Shares held for Share Award Scheme	<b>(9,333)</b>	(14,000)
Reserves	<b>611,040</b>	638,799
Total equity	<b>610,278</b>	633,292

# Notes to Financial Statements

31 December 2017

## 39. Statement of Financial Position of the Company (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK\$'000	Share award reserve HK\$'000	Share option reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2016	633,364	–	8,182	81,350	(73,535)	649,361
Total comprehensive loss for the year	–	–	–	–	(13,104)	(13,104)
Issue of shares	49,920	–	–	–	–	49,920
Share issue expenses	(403)	–	–	–	–	(403)
Issue of shares and exercise of share options	1,924	–	(1,139)	–	–	785
Equity-settled share option arrangements	–	–	10,022	–	–	10,022
Equity-settled Share Award Scheme arrangement	–	641	–	–	–	641
Final 2015 dividend	–	–	–	–	(58,423)	(58,423)
<b>At 31 December 2016 and 1 January 2017</b>	<b>684,805</b>	<b>641</b>	<b>17,065</b>	<b>81,350</b>	<b>(145,062)</b>	<b>638,799</b>
Total comprehensive loss for the year	–	–	–	–	(27,191)	(27,191)
Issue of shares and exercise of share options	15,660	–	(9,257)	–	–	6,403
Equity-settled share option arrangements	–	–	17,623	–	–	17,623
Equity-settled Share Award Scheme arrangement	–	7,345	–	–	–	7,345
Reclassification of vested awarded shares	(470)	(4,197)	–	–	–	(4,667)
Final 2016 dividend	–	–	–	–	(27,272)	(27,272)
<b>At 31 December 2017</b>	<b>699,995</b>	<b>3,789</b>	<b>25,431</b>	<b>81,350</b>	<b>(199,525)</b>	<b>611,040</b>

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

# Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows:

	<b>2017</b> HK\$'000	<b>2016</b> HK\$'000	<b>2015</b> HK\$'000	<b>2014</b> HK\$'000	<b>2013</b> HK\$'000
Revenue	<b>735,780</b>	1,339,611	2,736,152	2,092,385	1,622,527
Gross profit	<b>161,320</b>	325,407	546,143	445,767	335,357
Gross profit margin	<b>21.9%</b>	24.3%	20.0%	21.3%	20.7%
Profit before tax	<b>(470,034)</b>	61,638	253,843	246,484	201,407
Profit for the year	<b>(485,300)</b>	53,728	213,517	201,888	165,033
Net profit margin	<b>-66%</b>	4.0%	7.8%	9.6%	10.2%
Profit attributable to owners of the Company	<b>(485,300)</b>	53,728	213,517	201,906	147,439
Cash and cash equivalents	<b>203,129</b>	480,436	629,990	167,167	104,138
Bank and other borrowings	<b>89,265</b>	100,984	212,009	164,826	172,342
Total assets	<b>985,428</b>	1,384,661	1,498,311	921,009	862,483
Total liabilities	<b>415,164</b>	361,348	487,525	701,928	620,798
Equity attributable to owners of the Company	<b>570,264</b>	1,023,313	1,010,786	219,081	241,598
Non-controlling interests	<b>-</b>	-	-	-	87
Total equity	<b>570,264</b>	1,023,313	1,010,786	219,081	241,685