# Cowell e Holdings Inc.
# 高偉電子控股有限公司

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

**Stock Code: 1415**

ANNUAL REPORT

# 2018


# Contents

# Corporate Information

## COMPANY NAME

Cowell e Holdings Inc.

## PLACE OF LISTING OF SHARES

The Stock Exchange of Hong Kong Limited

## STOCK CODE

1415

## STOCK NAME

Cowell

## BOARD OF DIRECTORS

### Executive Directors

Mr. Seong Seokhoon *(Chairman)*
Mr. Lee Dong Goo

### Independent Non-executive Directors

Mr. Kim Chan Su
Dr. Song Si Young
Mr. Jung Jong Chae
*(appointed on December 13, 2018)*
Mr. Andrew Look
*(resigned on December 13, 2018)*

## COMPANY SECRETARY

Ms. Lam Wing Yan

## AUTHORIZED REPRESENTATIVES

Mr. Seong Seokhoon
Ms. Lam Wing Yan

## AUDIT COMMITTEE

Mr. Kim Chan Su *(Chairman)*
Dr. Song Si Young
Mr. Jung Jong Chae
*(appointed on December 13, 2018)*
Mr. Andrew Look
*(resigned on December 13, 2018)*

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## REGISTERED OFFICE

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

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1 Songbai Road
Huanan Industrial Zone
Liaobu Town
Dongguan City
Guangdong Province
People's Republic of China

# Corporate Information

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## AUDITOR

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

## LEGAL ADVISOR

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

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

## HONG KONG SHARE REGISTRAR

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

## PRINCIPAL BANKERS

Hongkong and Shanghai Banking Corporation Limited

Australia and New Zealand Banking Group Limited

## COMPANY WEBSITE

www.cowelleholdings.com

## PUBLIC RELATIONS CONSULTANT

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

# Chairman's Statement

Dear Shareholders,

I am pleased to present our key milestones and achievements for the financial year ended December 31, 2018 on behalf of Cowell e Holdings Inc. ("Cowell" or the "Company").

Following 2017, the fiscal year of 2018 was another challenging year to the Company due to retreating global smartphone industry. As witnessed, the main causes of the market downturn were lengthened handset replacement cycle, insignificant technology upgrade and saturating major markets including China. For the year ended December 31, 2018, our revenue decreased to US$535.9 million, 27.7% less than that of 2017, and we recorded a net profit of US$13.9 million, a 49.7% decrease as compared to the prior year. This performance was encouraging considering a net loss of US$2.5 million reported for the first six months ended June 30, 2018. Despite weak demand in camera modules and fierce competition in the camera module industry, we have made significant recovery in the second half of 2018 allowing us to report a net profit for the full year ended December 31, 2018. In order to make this achievement, we have made serious effort to improve production yield of new products which we launched in the second half of 2018 and cost management. Furthermore, we have terminated non-profit generating businesses including selling camera modules to one of three main customers and DVD component business. Thanks to these strategic management decisions, for the last three months ended December 31, 2018, both gross margin and operating margin had improved substantially as compared with those in the same period in 2017.

Going forward, uncertain economic and geopolitical situations including trade dispute between China and the United States (the "U.S.") are confronting us, which may affect our business. Given uncertainty stemmed from external factors as well as retreating smartphone industry, we believe, product diversification collaborating with customers and further production yield improvement are deemed to be two most optimal ways for the Company to grow in the near future. We are on the right track in this regard as we are currently working on various new projects with customers, which will help the Company turn around and grow in the near future.

In addition to our focus on business, we have also paid much attention to environment protection and social responsibility for local community, in which we are doing business and we believe these are very critical for the sustainability of our business. In this regard, we have initiated a project called 'Zero Waste to Landfill', which relates to the disposal of both hazardous and non-hazardous wastes. Through this project, we are expecting more than 90% of total wastes will be either reused or recycled and no waste from our manufacturing sites to be landfilled. Less than 10% of total wastes will be incinerated. Even then, any waste, which needs to be incinerated, will be done in a way to generate energy.

Lastly but not the least, on behalf of the Board, I would like to express my sincere gratitude to all our staff and the management team for their commitment for excellence, strong teamwork and dedication. I would also like to thank all our shareholders and stakeholders for their confidence in and continued support to our Group. Looking ahead, we will continue to focus on the customers' satisfaction from every aspects, which, we believe, would be an ideal way to maximize shareholders' value. And as always, my sincere appreciation goes to our Board members for their contribution and invaluable guidance during the year.

Finally, I would like to extend my sincere appreciation to Mr. Andrew Look for his contribution to the Board during his directorship and welcome a new Board Director, Mr. Jung Jong Chae who is expected to bring diversity to the Board with his extensive experience and knowledge of law specializing in tax and corporate finance transactions.

**Mr. Seong Seokhoon**
*Chairman*

# Management Discussion and Analysis

## MARKET REVIEW

The competition landscape of global smartphone industry has changed. This has been clearly evidenced by the market share of the leading players in both global and China smartphone markets. According to International Data Corporation ("IDC"), one of the reputable research firms in the world, smartphone shipments in 2018 was about 1.4 billion units, about a 4.1% drop on a year-over-year basis. It was the second consecutive year of smartphone shipment decrease even with a wider magnitude. The shipment downtrend in the global smartphone market in 2018 was driven by the following:

1 Lengthened handset replacement cycle;

2 No distinct technology innovation; and

3 Saturating key markets including China.

As the demand for smartphone was decreasing, the level of competition in 2018 became even more fierce than in 2017. Chinese smartphone makers' market expansion through technology innovation and extensive marketing effort was unprecedented. In accordance with IDC's report, during the last quarter of 2018, Huawei commanded about 30% market share in China with more than 20% increased shipment, followed by Oppo and Vivo. Apple took the fourth position commanding about 11% market share.

Consumers of smartphones have become more sophisticated and their level of expectation on technology innovation has risen. In order to meet consumers' expectation, major smartphone makers have tried to upgrade their flagship models in many areas. Among many technology innovation, new developments in screen and camera modules are noticeable. These new developments have become more noticeable in the premium phone sector, in which many leading smartphone makers are strategically focusing on. Recently new foldable phones were introduced by a few smartphone makers, which drew the consumers' attention although the market reception is still questionable due to high price. And as witnessed previously, more and more camera modules are equipped in the premium handsets with various sophisticated functions.

This market trend has well been recognized by our management and has been reflected into our medium and long term business strategies.

## BUSINESS REVIEW

For the year ended December 31, 2018, the Group sold approximately 96 million units of camera modules and approximately 60 million units of optical components, compared with approximately 144 million units of camera modules and approximately 79 million units of optical components in 2017. Revenue decreased from US$740.7 million in 2017 to US$535.8 million in 2018 and a profit for the year of US$27.6 million in 2017 and US$13.9 million in 2018 were recorded. The Group had total assets of US$384.4 million and total equity of US$326.3 million as of December 31, 2018 as compared with total assets of US$504.1 million and total equity of US$333.5 million as of December 31, 2017.

In order to facilitate efficient capital management and demonstrate the management's willingness to share the Group's profit with the shareholders, the Board has proposed the payment of a final dividend of HK11.1987 cents (2017: HK5.1553 cents) per ordinary share for the year ended December 31, 2018, subject to the approval of the Shareholders at the forthcoming annual general meeting.

## OUTLOOK AND FUTURE STRATEGIES

Following the fiscal year of 2017, the business environment in the fiscal year of 2018 was also not favorable to the Group due to sluggish smartphone industry, increased competition and lower than expected sales of our major US client's new products. Accordingly, the Group had reported a net loss of US$2.5 million for the first six months ended June 30, 2018. However, the Group had made a great recovery during the second half of 2018 which allowed us to report a net profit for the full year ended December 31, 2018. In order to make this recovery, the Group had made serious effort to improve production yield of new products ramped up in the second half of 2018 and reduce overall cost of operations. These efforts will be continued in 2019 in order to cope with current market situation.

Furthermore, the management of the Group will strive to turn around current downtrend of sales by pursuing the following:

- upgrading camera module related technology and manufacturing capability;
- recruiting and breeding new talented engineers;
- participating various new product development projects as much as possible; and
- soliciting new product and new business opportunities.

## FINANCIAL REVIEW

The following table shows the summary of business results for the year ended December 31, 2018:

| | For the year ended December 31, Consolidated | | |
|---|---|---|---|
| | **2018** (US$ in millions) | 2017 (US$ in millions) | Changes % |
| **OPERATING RESULTS** | | | |
| **Revenue** | **535.8** | 740.7 | (27.7%) |
| Camera modules | **533.2** | 735.6 | (27.50%) |
| Optical components | **2.6** | 5.1 | (49.0%) |
| **Gross profit** | **52.3** | 74.2 | (29.5%) |
| Gross margin | **9.8%** | 10.0% | |
| **Operating profit** | **14.3** | 31.1 | (54.0%) |
| Operating margin | **2.7%** | 4.2% | |
| **Net profit** | **13.9** | 27.6 | (49.6%) |
| Net margin | **2.6%** | 3.7% | |
| **ASSETS & LIABILITIES** | | | |
| **Total assets** | **384.4** | 504.1 | (23.7%) |
| Current assets | **264.5** | 367.3 | (28.0%) |
| Non-current assets | **119.9** | 136.8 | (12.4%) |
| **Total liabilities** | **58.1** | 170.6 | (66.0%) |
| Current liabilities | **57.9** | 170.4 | 66.0% |
| Non-current liabilities | **0.2** | 0.2 | (27.1%) |
| **Total equity** | **326.3** | 333.5 | (2.2%) |
| **EARNINGS PER SHARE** | **$0.017** | $0.033 | (48.5%) |

### Revenue

The Group reported a total revenue of US$535.8 million in 2018, representing a 27.7% decrease compared with that of 2017.

Camera modules: Camera modules revenue for the fiscal year of 2018 was US$533.2 million, representing a 27.5% decrease from US$735.6 million in 2017 which was mainly due to retreating global smartphone industry and increased competition.

Optical components: Optical components revenue for the fiscal year of 2018 was US$2.6 million, representing a 49.0% decrease from US$5.1 million in 2017 which was primarily due to the decreased demand in line with downtrend smartphone industry and DVD market.

## Profit and Margin

For the year ended December 31, 2018, the Group had reported gross profit, operating profit and net profit of US$52.3 million, US$14.3 million and US$13.9 million, respectively, as compared with US$74.2 million, US$31.1 million and US$27.6 million, respectively, in the fiscal year of 2017. In terms of margins, the Group's gross margin, operating margin and net margin for the year ended December 31, 2018 were 9.8%, 2.7% and 2.6%, respectively, as compared with 10.0%, 4.2% and 3.7%, respectively, in 2017.

During the year ended December 31, 2018, the Group did not experience any significant change of pricing policy for its products and there was no material change in the unit cost of raw materials.

## Key Financial Ratios

| | For the year ended December 31, Consolidated | |
|---|---|---|
| | **2018** | 2017 |
| | (US$ in millions) | |
| **KEY FINANCIAL RATIO (%)** | | |
| Return on equity | **4.3%** | 8.3% |
| Current ratio (times) | **4.57** | 2.15 |
| Quick ratio (times) | **3.42** | 1.52 |
| Gearing ratio | **(71.7%)** | (27.4%) |
| Debt to equity ratio | **(41.8%)** | (21.5%) |

### *Return on Equity*

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

The Group's return on equity at the end of the fiscal year of 2018 decreased from 8.3% in 2017 to 4.3% in 2018, primarily due to an decrease in net profit for the year ended December 31, 2018.

### *Current Ratio*

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

The Group's current ratio increased from 2.15 in 2017 to 4.57 in 2018, which was primarily due to decrease in the Group's trade and other receivables and decrease in inventory, which were partially offset by corresponding decrease in the Group's trade and other payables and decrease in bank loans.

#### *Quick Ratio*

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

The Group's quick ratio increased from 1.52 in 2017 to 3.42 in 2018, which was mainly due to the decrease in the Group's trade and others receivables, which were partially offset by a corresponding decrease in the Group's bank loans and trade and other payables.

#### *Gearing Ratio*

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

The Group's gearing ratio decreased from -27.4% in 2017 to -71.7% in 2018, which was primarily due to a decrease in its bank loans.

#### *Debt to Equity Ratio*

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

Consistent with its gearing ratio, the Group's debt to equity ratio decreased from -21.5% in 2017 to -41.8% in 2018, which was primarily due to a decrease in its bank loans.

### Selling and Distribution Expenses

The selling and distribution expenses decreased by 24.7% from US$3.2 million in 2017 to US$2.4 million in 2018. This decrease was mainly attributable to US$0.6 million decrease in the transportation expenses led by decreased sales.

### Administrative Expenses

Administrative expenses increased by 0.2% from US$39.3 million in 2017 to US$39.4 million in 2018. Although research and development expense was increased by US$1.2 million, overall administrative expenses almost remained unchanged due to the decrease in other administrative expenses.

### Finance Costs

Finance costs decreased by 74.2% from US$0.7 million in 2017 to US$0.2 million in 2018, which was mainly attributable to the cancellation of the trade receivable financing facility with the bank.

### Income Tax

The Group's income tax expense decreased by 91.8% from US$2.7 million in 2017 to US$0.2 million in 2018. Super deduction is a tax scheme which allows companies to deduct 175% (2017: 150%) of research and development expenses from the taxable income. This tax scheme incentivizes high technology companies to spend more research and development expenses for technology development. As a result, the Group's effective tax rate was lowered by 7.4% from 9.0% in 2017 to 1.6% in 2018.

### Final Dividends

For the year ended December 31, 2018, the final dividends proposed by the Board was HK11.1987 cents (equivalent to US$0.0144) per share, with a payout ratio of 86.3% of the profit attributable to the Shareholders.

## CURRENT ASSETS AND LIABILITIES

As of December 31, 2018, the Group had net current assets of US$206.6 million, compared with net current assets of US$196.8 million as of December 31, 2017, representing an increase of US$9.8 million.

### Inventories

The Group's inventory balance decreased by 37.9%, or US$40.7 million, from US$107.4 million as of December 31, 2017 to US$66.7 million as of December 31, 2018, mainly due to production and inventory control in 2018.

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

| | As of December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | (US$ in millions) | |
| Inventory turnover days(1) | **65.7** | 45.8 |

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

### Trade and Other Receivables

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

The Group's trade and other receivables decreased by 56.5%, or US$79.1 million, from US$139.9 million as of December 31, 2017 to US$60.8 million as of December 31, 2018.

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

| | As of December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | (US$ in millions) | |
| **Trade receivables** | | |
| Within 1 month | **31.9** | 78.6 |
| Over 1 to 2 months | **23.0** | 38.6 |
| Over 2 to 3 months | **2.0** | 0.2 |
| Over 3 months | **0.1** | 0.9 |
| Total | **57.0** | 118.3 |

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

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| Trade receivables turnover days(1) | **59.7** | 78.9 |

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

The Group's average trade receivables turnover days for the year ended December 31, 2018 were lower as compared with the year ended December 31, 2017 which was primarily due to efficient trade receivable control in 2018.

## Trade and Other Payables

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

The Group's trade and other payables decreased by 54.1%, or US$63.8 million, from US$54.2 million as of December 31, 2018 to US$118.0 million as of December 31, 2017, primarily due to a decrease in the purchased components and materials resulting mainly from the decreased production in 2018.

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

| | As of December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | (US$ in millions) | |
| **Trade payables** | | |
| Within 1 month | **25.3** | 57.4 |
| Over 1 to 3 months | **20.8** | 49.8 |
| Over 3 to 6 months | **0.1** | 0.1 |
| Total | **46.2** | 107.3 |

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

| | Year ended December 31, | |
|---|---|---|
| | **2018** | 2017 |
| Trade payables turnover days(1) | **52.3** | 65.2 |

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

The Group's average trade payables turnover days for the year ended December 31, 2018 were lower as compared with the year ended December 31, 2017.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had a solid financial position and continued to maintain a strong and steady inflow from operating activities. As at December 31, 2018, the Group had US$112.2 million of cash and cash equivalents. The Directors believe that the current cash and cash equivalents, together with cash flow from operations, will be sufficient to satisfy the current operational requirements of the Group.

### Borrowings

As of the close of business on December 31, 2018, the Group did not have any loan outstanding, debt securities, charges, mortgages or other similar indebtedness, hire purchase and finance lease commitments, or guarantees or other material contingent liabilities.

### Pledge of The Group's Assets

As at December 31, 2018, the Group's pledged deposits included US$3.2 million (December 31, 2017: US$3.4 million) provided to the local customs authority in the PRC. Details of such pledge is disclosed in note 16 to the consolidated financial statements.

### Capital Expenditures and Commitments

The Group's capital expenditures (equivalent to the cash spent for payment for purchases of property, plant and equipment and intangible assets) for the year ended December 31, 2018 amounted to US$16.5 million which was funded through cash flow from operation, compared with US$18.9 million for the year ended December 31, 2017. The Group's capital expenditures in 2018 mainly reflected purchases of additional machinery and equipment to produce more advanced Flip-chip camera modules. The Group intends to fund the Group's future capital expenditures through a combination of cash flow from operating activities and possible fund raising exercises.

The Group's capital commitments that were contracted but not provided as of December 31, 2018 amounted to US$0.1 million, compared with US$0.9 million as of December 31, 2017. Such capital commitments represent commitments arising out of a contractual relationship where the relevant property, plant and equipment were not provided as of the relevant dates.

The Group is the lessee in respect of a number of properties held under operating leases. These leases are non-cancellable for the remaining period from 1 to 17 years, with an option to renew the lease upon expiration. None of the leases include contingent rentals. The table below sets forth the Group's operating lease commitments under these non-cancellable operating leases for factory, office, equipment and vehicles, by lease term, as of the dates indicated:

| | As of December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | (US$ in millions) | |
| Within one year | **2.1** | 2.2 |
| Between one and five years | **6.8** | 6.4 |
| Over five years | **10.8** | 13.0 |
| Total | **19.7** | 21.6 |

### Contingent Liabilities

As at December 31, 2018 the Group had no significant contingent liabilities except for the guarantees issued by the Company to secure the banking facilities with banks as disclosed in note 18 to the consolidated financial statements.

### Interest Coverage Ratio

The interest coverage ratio increased from 42.7 in 2017 to 76.2 in 2018, which was primarily due to a decrease in average finance costs resulting from a decrease in the Group's average bank loans.

### Treasury Policies

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

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ON MARKET RISK

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

### Credit Risk

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

The Group's exposure to credit risk is influenced primarily by the individual characteristics of each customer, and to a lesser extent, by the default risk of the industry and country in which its customers operate. As of December 31, 2018, 87.4% (2017: 87.8%) of the Group's trade receivables were due from its largest customer, and 88.0% (2017: 99.9%) of its trade receivables were due from its five largest customers in the aggregate.

### Liquidity Risk

The Group's policy is to regularly monitor liquidity risk so as to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term. No outstanding loans was made (2017: US$47.1 million) as at December 31, 2018.

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

### Interest Rate Risk

The Group's interest rate risk arises primarily from its interest-bearing borrowings subject to variable rates and those subject to fixed rates, which expose the Group to fair value interest rate risks. As of December 31, 2018, there was no outstanding loan (2017: US$47.1 million).

As at December 31, 2017, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would had decreased/increased the Group's profit after taxation and retained profits by approximately $393,000. Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

### Currency Risk

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

The functional currency of the Company and its subsidiaries operating in Hong Kong, the PRC and Korea are U.S. dollars, Hong Kong dollars, Renminbi and Korean Won, respectively. While both the Group's sales of products and purchases of components, materials and equipment are denominated mainly in U.S. dollars, a portion of its purchases, as well as its labor and other operating costs, are denominated in other currencies, including Renminbi and Korean Won. For the year ended December 31, 2018, the Group did not use any forward exchange contracts or other derivative instruments to hedge against fluctuations in currency exchange rates applicable to us.

As of December 31, 2018, it is estimated that if the exchange rate of the Korean Won against the U.S. dollars had appreciated by 5%, with all the other variables held constant, the Group's profit after tax and retained profits would have increased by approximately US$0.8 million (2017: US$0.8 million).

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

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions and disposals of subsidiaries and associated companies of the Company performed by the Group for the year ended December 31, 2018.

## HUMAN RESOURCES

The Group employed a total of approximately 2,437 full-time employees as of December 31, 2018 (December 31, 2017: 4,267). Total staff costs for the year ended December 31, 2018, excluding Directors' remuneration were approximately US$45.5 million (2017: US$54.5 million).

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

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

# Directors and Senior Management

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

## Executive Directors

**Mr. Seong Seokhoon ("Mr. Seong")**, aged 55, is an executive Director and the Chairman of the Board. He is the chief executive officer of Cowell Hong Kong and the registered internal auditor for Cowell China and Cowell Korea. Prior to joining the Group in May 2003 as the chief executive officer of Cowell Korea, Mr. Seong worked at the planning department at LG Chem as an assistant manager between January 1989 and December 1994 and the financial affairs and planning department at Woobang Construction Co., Ltd., a Korean company engaged in the construction business, as a senior manager between January 1995 and February 2001. In the periods between November 2001 and May 2003 and between October 2008 and May 2012, Mr. Seong served as the chief executive officer of DSD Marketing, a marketing agency based in Korea, and from August 2007 to September 2008, he served as a director of Cowell Korea. From May 2003 to September 2008, Mr. Seong served as the chief executive officer of Cowell Korea. He was appointed as the chief financial officer of Cowell China in May 2012 and in December 2012, he was appointed as a director of Cowell Hong Kong. Mr. Seong was appointed as a Director on December 17, 2012. He was re-designated as an executive Director on April 14, 2014 and was appointed the chief financial officer of the Company in October 2014. Mr. Seong has been redesignated as the Company's chairman of the board with effect on March 1, 2016. Mr. Seong received a bachelor's degree in accounting from Kyungpook National University in Korea in February 1989. His appointment was renewed for next three years from March 10, 2018.

**Mr. Lee Dong Goo ("Mr. DG Lee")**, aged 44, is an executive Director overseeing new business development. Prior to his new role as head of new business development in January 2019, Mr. DG Lee had been responsible for overall camera R&D and engineering division of Cowell China since September in 2016. Mr. DG Lee joined Cowell China in September 2011 as a camera technology and test process manager, Mr. DG Lee had worked at Samsung Techwin Co., Ltd. and Samsung Electronics Co., Ltd. as a camera system senior engineer from May 2001 to August 2011 and engaged in the satellite image development and sensor modeling of aerospace and photogrammetry, as a research associate at ETRI (Electronics and Telecommunications Research Institute), a national research center based in Korea from March 1999 to April 2001. In December 2012, Mr. DG Lee was promoted to a director of Cowell China as a R&D head and remained in that position until August 2016. Mr. DG Lee has around 19 years of experiences in high camera technologies, camcorder development and very valuable insight and technical experiences with lots of global customers. Mr. DG Lee was appointed as an executive Director on May 18, 2017.

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

## Independent non-executive Directors

**Mr. Kim Chan Su ("Mr. Kim")**, aged 51, is an independent non-executive Director. Mr. Kim is responsible for supervising and providing independent judgment to the Board. Mr. Kim has over 20 years' experience in professional accounting and consulting services. Since November 2004, Mr. Kim has been the chief executive officer and representative partner of IL SHIN Corporate Consulting Limited and IL Shin CPA Limited, private companies based in Hong Kong which provide professional tax and accounting advisory services to clients in Hong Kong, China and overseas. From August 2002 to October 2004, Mr. Kim worked at PricewaterhouseCoopers Hong Kong as a representative of the Korean desk in charge of Korean companies' investment in Hong Kong and China. From October 1993 to July 2002, Mr. Kim served as a senior manager at Samil Accounting Corporation in Seoul. From September 2004 to January 2013, Mr. Kim also acted as an independent non-executive director of Forebase International Holdings Limited (formerly known as Kwang Sung Electronics H.K. Co. Limited), which is listed on the Hong Kong Stock Exchange (stock code: 2310). Mr. Kim obtained a bachelor's degree in economics from Yonsei University in Korea in February 1992. Mr. Kim is a certified public accountant in Korea, Hong Kong and the States of Washington of the United States. He is also a member of AICPA and the HKICPA respectively. Mr. Kim was appointed as an independent non-executive Director on March 10, 2015 and renewed his appointment for next three years from March 10, 2018.

**Mr. Jung Jong Chae ("Mr. Jung")**, aged 45, is a partner at Shin & Kim, one of South Korea's leading law firms with more than 500 Korean and foreign professionals providing comprehensive legal, accounting, tax, compliance and regulatory services. Mr. Jung's main areas of practice include tax, anti-trust and subcontract law. Mr. Jung has also handled successfully large transactions and corporate disputes. After passing the Higher Civil Service Examination, Mr. Jung, as a deputy director, served for the Investigation Bureau of the Seoul Regional Tax Office, the Tax Collection Division of the National Tax Service, and the Tax Service Division of the Jeju Tax Office. Mr. Jung has published many articles on tax and fair trade issues and wrote textbooks on subcontract law, and is active in various forums and studies as both presenter and debater. Mr. Jung holds a Bachelor of Art in Economics from Seoul National University in Korea and a Master of Business Administration from Sejong-Syracuse University. Mr. Jung also holds a Master of Laws from New York University. Mr. Jung was appointed as an independent non-executive Director on December 13, 2018

**Dr. Song Si Young ("Dr. Song")**, aged 61, is an independent non-executive Director. Dr. Song is responsible for supervising and providing independent judgment to the Board. Dr. Song has over 20 years' experience in medicine and the healthcare industry. Since March 1993, Dr. Song has been a faculty member of Yonsei University College of Medicine in Korea and he currently serves as a professor in the Department of Internal Medicine. Dr. Song served as an exchange assistant professor at Vanderbilt University College of Medicine in the United States from September 1996 to November 1998. He has also served as the director of the Division of Medical Science Research Affairs and the president of the Industry-Academy Cooperation Foundation of Yonsei University Health System since September 2010 where he was in charge of the management and administration of Yonsei University Health System's research, development and participation in the healthcare industry. Dr. Song has also served as a director of Yonsei Technology Holdings, Inc., a company engaged in the commercialization of Yonsei University's technologies through forming subsidiaries since June 2011, where he is responsible for the operational management of technological holding companies affiliated with the Industry-Academy Cooperation Foundation of Yonsei University. Dr. Song was appointed as an independent non-executive Director on March 10, 2015 and renewed his appointment for next three years from March 10, 2018.

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

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

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

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

## SENIOR MANAGEMENT

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

**Mr. Lee Kyung Koo ("Mr. Lee")**, aged 58, is the Chief Executive Officer of the Company. Mr. Lee is responsible for managing the overall business operations and achieving the strategic objectives of the Group. Prior to joining our Group in April 2018 as the Chief Executive Officer, Mr. Lee had over 30 years of work experience in finance, human resources, procurement and management innovation. Mr. Lee started his career in Samsung Electronics Co., Ltd. ("Samsung Electronics") in 1984 and had worked there for 26 years. His last position within Samsung Electronics was a director of the network division of Samsung Electronics, with overall responsibility for accounting, finance, human resources, procurement, and management innovation. After serving as a director for 5 years, Mr. Lee moved to Hanhwa Techwin Co., Ltd. (formerly known as Samsung Techwin Co., Ltd.) and had worked as chief financial officer until 2015. Before joining the Group, Mr. Lee was working as vice president of information communication technology division of SoluM Co., Ltd.. Mr. Lee received a bachelor's degree in applied statistics from Yonsei University in February 1982.

**Mr. Cho Kyu Beom ("Mr. KB Cho")**, aged 55, has been the chief executive officer of Cowell Korea since April 2012. Mr. KB Cho is responsible for supervising the daily operations of Cowell Korea. Prior to joining the Group in July 2002 as a department manager at Cowell China, Mr. KB Cho worked at LG Chem as an assistant manager from July 1989 to April 1996 and at LG Siltron Incorporated, a private company based in Korea engaged in the manufacture and sale of semiconductor materials such as wafer, as a senior manager from May 1996 to July 2002. In December 2008, Mr. KB Cho was promoted to be a chief executive officer of Cowell China and remained in that position until April 2011. Mr. KB Cho has been a director of Cowell Korea since March 2009. Between May 2011 and March 2012, he served as an executive vice president of Cowell Korea and since April 2012, he has been the chief executive officer of Cowell Korea. Mr. KB Cho received a bachelor's degree in mechanical engineering from Hanyang University in Korea in February 1987.

**Mr. Cho Young Hoon ("Mr. YH Cho")**, aged 42, is the chief financial officer of the Company. Mr. YH Cho joined Cowell China in July 2013 as a manager of strategic planning division being responsible for supervising daily financial and sales operations of Cowell China. Mr. YH Cho has promoted to a director of Cowell China in September 2016 and been appointed as a chief financial officer of the Group in April 2018. Prior to joining Cowell China in July 2013, Mr. YH Cho had worked at LG Electronics, Inc. as an assistant manager from July 2002 to July 2013 based in Korea engaged in the manufacture and sale of consumer electronics such as mobile phones, televisions and air conditioners. Mr. YH Cho received a bachelor's degree in economics from Yonsei University in Korea in February 2002.

**Mr. Ryu Jin-Kyu ("Mr. Ryu")**, aged 48, is a director of Cowell China and is responsible for the overall Quality Assurance of the Group. Prior to joining Cowell China in August 2015, Mr. Ryu had over 20 years of work experience in the quality division of the semiconductor manufacturing industry. Mr. Ryu started his career in the quality division of Hynix Semiconductor Inc., one of the major semiconductor manufacturing companies in the world, and had worked there for 4 years from 1994 to 1997. From 1997 to 2015, Mr. Ryu had served as a senior manager in the quality division of Dongbu Hitek Company Limited which was the first runner of non-memory semiconductor foundry business in Korea. Mr. Ryu received a bachelor's degree in Metalurgical Engineering from Hanyang University in February 1994.

## COMPANY SECRETARY

**Ms. Lam Wing Yan ("Ms. Lam")**, aged 42, is the senior finance manager of Cowell Hong Kong and was appointed as the company secretary of our Company on September 17, 2014. Ms. Lam joined our Group in August 2013 and has been primarily responsible for corporate financial management. She has over 15 years of experience in corporate financial management, accounting and the company secretarial area. Prior to joining our Group, Ms. Lam held various positions, including the senior manager of finance and operations at Iriver Hong Kong Limited, a private company based in Hong Kong and provides, among others, broadcasting equipment and semiconductors and the holding company of which is listed on the Korea Exchange, for approximately 10 years from March 2001 to June 30, 2011. Ms. Lam obtained a master's degree in business administration from the University of South Australia in March 2012. Ms. Lam is a certified public accountant, a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

# Directors' Report

The Board is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended December 31, 2018.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2018 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 88 to 155.

The Board has recommended the payment of a final dividend of HK11.1987 cents (2017: HK5.1553 cents) per ordinary share for the year ended December 31, 2018 to shareholders whose names appear on the register of members of the Company on Monday, May 27, 2019, subject to the approval of the Shareholders at the forthcoming annual general meeting.

## CLOSURE OF REGISTER OF MEMBERS

The record date for the proposed final dividend will be Monday, May 27, 2019. The Company's register of members will be closed from Thursday, May 23, 2019 to Monday, May 27, 2019 (both days inclusive) in order to determine entitlements to the proposed final dividend. During such period, no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited (the "Share Registrar"), at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, May 22, 2019. Subject to the approval of the Shareholders at the annual general meeting, dividend will be paid to the Shareholders on or around Thursday, June 6, 2019.

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

For determining the entitlement to attend and vote at the annual general meeting of the Company (the "AGM"), the register of members of the Company will be closed from Friday, May 10, 2019 to Thursday, May 16, 2019, both dates inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, shareholders must complete and lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, May 9, 2019.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five years ended December 31, 2018 are set out on page 156 of this annual report. That summary does not form part of the audited financial statements.

## SHARE CAPITAL

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

## DISTRIBUTABLE RESERVES

### Distributability of reserves of the Company

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at December 31, 2018, the reserves of the Company available for distribution to the Shareholders amounted to approximately US$66,556,000 (2017: US$66,699,000).

## DONATIONS

Charitable donations made by the Group during the year ended December 31, 2018 amounted to US$7,568 (2017: US$29,000) using 2018 average RMB/USD exchange rate of 6.607.

## PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2018.

## SHARE OPTION SCHEME

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

### Purpose of the Share Option Scheme

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

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

### Who may join

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

(i) any executive director, or employee (whether full time or part time) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest (together with (i) above, "Eligible Employee");

(iii) any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent or service provider of the Company, any subsidiary or any entity in which the Company or any subsidiary holds any equity interest who is an individual; or

(iv) any full-time employee of any customer, business or joint venture partner, advisor, consultant, contractor, supplier, agent, customer or service provider of the Company or any subsidiary or any entity in which the Company or any subsidiary holds any equity interest, who the Board considers, in its sole discretion, has contributed or will contribute to the Company or any subsidiary or any entity in which the Company or any subsidiary holds any equity interest (collectively, the "Qualified Participant").

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

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

(i) the Company may seek approval by the Shareholders in general meeting for refreshing the Scheme Mandate provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company under the Scheme Mandate as refreshed must not exceed 5% of the total number of Shares in issue as at the date of such shareholder approval. For these purposes, options previously granted under the Share Option Scheme and any other share option schemes of the Company, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already exercised, will not be counted. The Company shall send to the Shareholders a circular containing the information required under Chapter 17 of the Listing Rules;

(ii) the Company may seek separate approval by the Shareholders in general meeting for granting options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Qualified Participants who are specifically identified before such approval is sought. A circular will be sent by the Company to the Shareholders in accordance with the Listing Rules; and

(iii) the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed such number of Shares as shall represent 30 per cent of the Shares in issue from time to time. No options may be granted if such grant will result in this 30 per cent limit being exceeded.

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

### Maximum entitlement of each Qualified Participant

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

### Acceptance of an offer of options

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

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

### Subscription price

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

(i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of offer;

(ii) the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and

(iii) the nominal value of the Shares.

### Restriction on the time of grant of options

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

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

(ii) the deadline for the Company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

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

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

### Rights are personal to the grantee

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

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

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

During the year ended December 31, 2018, the Company has granted share options (the "Option") to certain eligible persons (the "Grantees") to subscribe for a total of 3,000,000 Shares under the Share Option Scheme. Details of the Options granted are set out below:

### Grant of Options

| | |
|---|---|
| Date of Grant: | April 19, 2018 |
| Exercise price: | HK$1.948 per Share |
| Total number of Options granted: | An aggregate of 2,000,000 Options |
| Exercisable period of the Options: | Options are exercisable from April 19, 2020 to April 18, 2028 (both dates inclusive) |
| Date of Grant: | May 24, 2018 |
| Exercise price: | HK$1.89 per Share |
| Total number of Options granted: | An aggregate of 1,000,000 Options |
| Exercisable period of the Options: | Options are exercisable from May 8, 2020 to May 7, 2028 (both dates inclusive) |

### Directors' Report

Movement of the Options granted under the Share Option Scheme during the year ended December 31, 2018 are listed below:

### Movement of the share option

| | Number of Share Options | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at January 1, 2018 | Date of Grant April 19, 2018 | Date of Grant May 24, 2018 | Cancelled | Lapsed | As at December 31, 2018 | Exercise Price (HK$) | Closing price of the securities on the Date of Grant (HK$) | Date of Grant | Vesting Period | Exercisable Period |
| Seong Seokhoon | 1,000,000 | – | – | – | – | 1,000,000 | 3.76 | 3.75 | October 30, 2015 | October 31, 2015 to December 31, 2017 | January 1, 2018 to October 29, 2025 |
| Lee Dong Goo | 1,000,000 | – | – | – | – | 1,000,000 | 3.76 | 3.75 | October 30, 2015 | October 31, 2015 to December 31, 2017 | January 1, 2018 to October 29, 2025 |
| Lee Kyung Koo | – | 2,000,000 | – | – | – | 2,000,000 | 1.948 | 1.86 | April 19, 2018 | April 20, 2018 to April 18, 2020 | April 19, 2020 to April 18, 2028 |
| Continuous contract employee | 3,850,000 | – | – | (1,900,000) | – | 1,950,000 | 3.76 | 3.75 | October 30, 2015 | October 31, 2015 to December 31, 2017 | January 1, 2018 to October 29, 2025 |
| Continuous contract employee | 400,000 | – | – | (400,000) | – | – | 2.92 | 2.83 | June 20, 2016 | June 21, 2016 to June 19, 2019 | June 20, 2019 to April 20, 2026 |
| Continuous contract employee | 400,000 | – | – | (400,000) | – | – | 3.04 | 3.04 | June 20, 2017 | June 21, 2017 to June 19, 2020 | June 20, 2020 to June 19, 2027 |
| Continuous contract employee | – | – | 1,000,000 | – | (1,000,000) | – | 1.89 | 1.81 | May 24, 2018 | May 25, 2018 to May 7, 2020 | May 8, 2020 to May 7, 2028 |
| Total | 6,650,000 | 2,000,000 | 1,000,000 | (2,700,000) | (1,000,000) | 5,950,000 | | | | | |

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

## SUBSIDIARIES

Details of the Company's subsidiaries as at December 31, 2018 are set out in note 13 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2018, the percentage of the Group's revenue attributable to the Group's largest customer and the five largest customers in aggregate were 90.5% and 99.8% (2017: 85.5% and 98.6% respectively) respectively.

During the year ended December 31, 2018, the percentage of the Group's purchases attributable to the Group's largest supplier and the five largest suppliers in aggregate were 48.5% and 74.6% (2017: 46.6% and 73.0% respectively) respectively.

During the year ended December 31, 2018, none of the Directors or any of their associates or any shareholders which to the best knowledge of the Directors, who own more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers or suppliers.

## RETIREMENT BENEFIT SCHEMES

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

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. Details of the remuneration of each Director for the year ended December 31, 2018 are set out in note 8 to the consolidated financial statements of this annual report.

The remuneration of members of the senior management by band for the year ended December 31, 2018 is set out below:

| Remuneration Bands: | 2018 Number of individuals | 2017 Number of individuals |
|---|---|---|
| HK$1 (US$0.129)–HK$1,000,000 (US$129,000) | — | 1 |
| HK$1,000,001 (US$129,000)–HK$1,500,000 (US$193,000) | 3 | 1 |
| HK$1,500,001 (US$193,000)–HK$2,000,000 (US$258,000) | — | — |
| HK$2,000,001 (US$258,000)–HK$2,500,000 (US$322,000) | 1 | 1 |
| HK$2,500,001 (US$322,000)–HK$3,000,000 (US$387,000) | — | — |

## DIRECTORS

The Directors during the 2018 financial year and up to the date of this annual report are:

**Executive Directors**
Mr. Seong Seokhoon *(Chairman)*
Mr. Lee Dong Goo

**Independent non-executive Directors**
Mr. Kim Chan Su
Dr. Song Si Young
Mr. Jung Jong Chae *(appointed on December 13, 2018)*
Mr. Andrew Look *(resigned on December 13, 2018)*

In the forthcoming annual general meeting of the Company, Mr. Kim Chan Su, Dr. Song Si Young and Mr. Jung Jong Chae will retire as Directors in accordance with Article 16.18 of the Articles of Association and, being eligible, will offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

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

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2018.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the contracts described under the paragraph headed "Connected Transactions and Continuing Connected Transactions" below and note 26 to the consolidated financial statements, no contracts of significance in relation to the Group's business or for the provision of services to which the Company or any of its subsidiaries was a party and in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of 2018 or at any time during 2018.

## CONTRACTS WITH CONTROLLING SHAREHOLDERS

No transaction, arrangement or contract of significance has been entered into among the Company or any of its subsidiaries and the controlling shareholders during the year ended December 31, 2018.

## RELATED PARTY TRANSACTIONS

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

## DEED OF NON-COMPETITION

Pursuant to a deed of non-competition dated March 10, 2015 (the "Deed of Non-competition") entered into among Mr. Kwak Joung Hwan and Hahn & Co. Eye (the "Covenantors") and the Company, the Covenantors have given certain non-competition undertakings in favour of the Company. Please refer to the Prospectus for details of the terms of the Deed of Non-competition.

The independent non-executive Directors have conducted its annual review and confirmed that Mr. Kwak Joung Hwan has fully complied with the Deed of Non-competition for the year ended December 31, 2018. Going forward, the independent non-executive Directors will continue to review, on an annual basis, Mr. Kwak Joung Hwan's compliance with the Deed of Non-competition (in particular, the right of first refusal relating to any business opportunity) and Mr. Kwak will provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors. The Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance with and enforcement of the Deed of Non-competition in its next annual report or by way of announcement to the public.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2018, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

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

As at December 31, 2018, so far as is known to the Directors, none of the Directors or the chief executive officers of the Company had any interests or short positions in the Shares, underlying Shares or debenture of the Company or its associated corporations which were (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

As at December 31, 2018, the following persons had interests or short positions in our Shares or relevant Shares which were required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO:

### Interest of substantial shareholders

| Name of shareholder | Nature of interest | Number of Shares or underlying Shares[2] | Approximate percentage of shareholding interest |
|---|---|---|---|
| Mr. Kwak Joung Hwan | Beneficial interest | 374,159,400 | 45.00 |
| Ms. Yang Won Sun[1] | Interest of spouse | 374,159,400 | 45.00 |

*Notes:*

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

(2) All interests are long positions.

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

Save as disclosed above as at December 31, 2018, the Directors were not aware of any person (other than the Directors or chief executive and substantial shareholders of the Company the interests of which were disclosed above) who had an interest or short position in the securities of the Company that were required to be entered in the register of the Company pursuant to section 336 of the SFO as at December 31, 2018.

## STATUS OF USE OF PROCEEDS

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

1. Approximately 66% of the net proceeds for the enhancement of production capacity for fixed-focus camera modules and the manufacturing facilities for high-end camera modules;

2. Approximately 13% of the net proceeds for the enhancement of existing production lines for high-end COB camera modules;

3. Approximately 12% of the net proceeds for the repayment of a term bank loan; and

4. Approximately 9% of the net proceeds for working capital and other general corporate purposes.

Since the IPO, all net proceeds were used in accordance with the original plan except on investment plan for COB camera modules. Investment plan for COB camera modules has been delayed mainly due to the slow growth rate of global smartphone industry. Up until the year ended December 31, 2018, a total of US$3.2 million, representing 65.8% of the net proceeds allocated to the enhancement of production lines for high-end COB camera modules, has been utilized. The remaining balance of US$1.7 million is scheduled to be used for machine and equipment for high-end COB camera modules in the fiscal year of 2019.

## SUFFICIENCY OF PUBLIC FLOAT

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

## EVENTS AFTER THE FINANCIAL YEAR ENDED DECEMBER 31, 2018

Save as disclosed above, there were no significant events affecting the Company nor any of its subsidiaries after the financial year ended December 31, 2018 requiring disclosure in this report.

## CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" section on pages 36 to 63 of this annual report.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") had reviewed together with the management and KPMG, the Company's auditor, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2018.

## AUDITOR

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

## ENVIRONMENTAL POLICIES

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

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended December 31, 2018, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by our Group that have a significant impact on the business and operations of the Group.

## FINANCIAL KEY PERFORMANCE INDICATORS

For the year ended December 31, 2018, the Group's total revenue decreased by 27.7% to US$535.9 million (2017: US$740.7 million). Profit for this year decreased by 49.7% to US$13.9 million (2017: US$27.6 million). Net profit margin was 2.6% (2017: 3.7%) for the year ended December 31, 2018. Earnings per share were US$0.017 (2017: US$0.033). The Board has proposed a final dividend of approximately HK11.1987 cents (equivalent to US1.4431 cents) for the year ended December 31, 2018. (2017: HK5.1553 cents, equivalent to US0.6643 cents) per ordinary share for the year ended December 31, 2018.

Overall revenue decrease was mainly due to retreating global smartphone industry and shrinking DVD market.

The Group financial position still remained solid. The Group was able to generate positive operating cashflows for the year ended December 31, 2018 which amounted to US$87.4 million (2017: US$60.4 million).

Average inventory turnover days of the Group were 65.7 days for 2018, higher than the 45.8 days for 2017. Average turnover days of trade receivables decreased to 59.7 days for the year ended December 31, 2018 as compared to 78.9 days for the year ended December 31, 2017. Average trade payable turnover days were 52.3 days for the year ended December 31, 2018 as compared with 65.2 days for the year ended December 31, 2017.

## KEY RELATIONSHIPS

### (i) Employees

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

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

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

### (ii) Suppliers

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

### (iii) Customers

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

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

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

Hong Kong, March 22, 2019

# Corporate Governance Report

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

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

## SECURITIES TRANSACTIONS

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

The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code during the year ended December 31, 2018.

## THE BOARD OF DIRECTORS

### Board Responsibilities

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

### Delegation by the Board

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

## Board Composition

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

***Executive Directors***
Mr. Seong Seokhoon *(Chairman)*
Mr. Lee Dong Goo

***Independent non-executive Directors***
Mr. Kim Chan Su
Dr. Song Si Young
Mr. Jung Jong Chae *(appointed on December 13, 2018)*
Mr. Andrew Look *(resigned on December 13, 2018)*

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

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

## Executive Director

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

## Independent Non-executive Directors

Mr. Jung Jong Chae ("Mr. Jung") was appointed as an independent non-executive Director on December 13, 2018 immediately following the resignation of Mr. Andrew Look. With the appointment of Mr. Jung with effect from December 13, 2018, the Company has three Independent non-executive Directors and the Audit Committee comprises of three members and therefore the Company is in compliance with the requirements under rules 3.10(1) and 3.21 of the Listing Rules.

Independent non-executive Directors play an important role in the Board by bringing independent judgment and advice and through scrutiny of the Company's performance. During the year ended December 31 2018, save as disclosed above, the Company was in compliance with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing the appropriate professional qualifications or accounting or related financial management expertise. The Company had also complied with Rule 3.10A of the Listing Rules which requires that independent non-executive Directors appointed must represent at least one-third of the Board.

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

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

## CHAIRMAN AND CHIEF EXECUTIVE

Pursuant to Code Provision A.2.1 of the CG Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. However, during the year ended December 31, 2018, the Company did not have a separate chairman and chief executive and Mr. Seong had been performing these two roles at the same time until April 19, 2018. The Board had considered that having Mr. Seong acting as both the chairman of the Board and the Company's chief executive officer would provide a strong and consistent leadership to the Company and allow for more effective planning and management for the Group. The Board had taken into account Mr. Seong's extensive experience in the industry, personal profile and critical role in the Group and its historical development.

On April 19, 2018, Mr. Seong resigned as the chief executive officer of the Company and Mr. Lee was appointed as the Company's chief executive officer.

Save as disclosed above, the Directors consider that the Company had fully complied with the applicable code provisions as set out in the Code of Corporate Governance Practices as contained in Appendix 14 during the year ended December 31, 2018.

## APPOINTMENT, RETIREMENT AND RE-ELECTION OF DIRECTORS

The Articles of Association provide that any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

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

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

## INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

Pursuant to the Code Provision A.6.5, the Company has received from the below directors, being all Directors at the year ended date, a record of the training they received for the year 2018.

| Directors | Reading materials | Attend Seminars/ conference/ workshops |
|---|---|---|
| **Executive Directors** | | |
| Seong Seokhoon | √ | √ |
| Lee Dong Goo | √ | √ |
| **Independent Non-Executive Directors** | | |
| Kim Chan Su | √ | √ |
| Song Si Young | √ | √ |
| Jung Jong Chae (appointed on December 13, 2018) | √ | √ |
| Andrew Look (resigned on December 13, 2018) | √ | √ |

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

## BOARD MEETINGS

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

## ATTENDANCE RECORDS OF BOARD MEETINGS

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

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

Details of Directors' attendance records in 2018 are set out below:

| | Meetings Attended/Held | | | | |
|---|---|---|---|---|---|
| **Directors** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **2017 AGM** |
| **Executive Directors** | | | | | |
| Seong Seokhoon | 6/6 | N/A | 4/4 | 2/2 | 1/1 |
| Lee Dong Goo | 6/6 | N/A | N/A | N/A | 0/1 |
| **Independent Non-Executive Directors** | | | | | |
| Kim Chan Su | 6/6 | 5/5 | 4/4 | 2/2 | 1/1 |
| Song Si Young | 5/6 | 5/5 | 4/4 | 2/2 | 0/1 |
| Jung Jong Chae (appointed on December 13, 2018) | 1/6 | 0/5 | N/A | N/A | 0/1 |
| Andrew Look (resigned on December 13, 2018) | 5/6 | 5/5 | N/A | N/A | 1/1 |

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

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

## PERMITTED INDEMNITY PROVISION

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

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

## BOARD COMMITTEES

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

### Audit Committee

The Audit Committee comprises three members, all of whom are independent non-executive Directors. It is currently chaired by Mr. Kim Chan Su, and its other members are Dr. Song Si Young and Mr. Jung Jong Chae.

The primary functions of the Audit Committee include the following:

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

- reviewing the Company's financial controls, risk management and internal control systems and discussing the internal control system with management to ensure that management has performed its duty to have an effective internal control system;

- considering major investigation findings on risk management and internal control matters as delegated by the Board or on the Audit Committee's own initiative, as well as management's response to these findings; and

- reviewing the Group's financial and accounting policies and practices.

The written terms of reference of the Audit Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Audit Committee holds at least two meetings each year from 2015 onwards. The Audit Committee held five meetings during the financial year of 2018.

**Remuneration Committee**

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

The primary functions of the Remuneration Committee include the following:

- reviewing and making decisions in respect of the remuneration packages and overall benefits for the Directors and senior management of the Company based on the Board's delegation given on April 15, 2015;

- making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

- making decisions on the remuneration packages of individual executive directors based on the Board's delegation given on April 15, 2015;

- making recommendations to the Board on the remuneration of non-executive directors; and

- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

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

### Nomination Committee

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

The primary functions of the Nomination Committee include the following:

- reviewing the structure, size and composition (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable individuals, the Nomination Committee shall consider individual on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;

- assessing the independence of independent non-executive Directors;

- reviewing the Board Diversity Policy, as appropriate, and review the measurable objectives that the Board has set for implementing the Board Diversity Policy, and the progress on achieving the objectives;

- making recommendations to the Board on the appointment or reappointment of Directors and succession plan for Directors; and

- developing, reviewing and disclosing the policy for nomination of directors (the "Nomination Policy"), as appropriate, in the Company's corporate governance report annually.

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

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

## Nomination Policy

The Nomination Committee has adopted a Nomination Policy that sets out the nomination procedures, process and criteria to select and recommend candidates for directorship.

### *Selection Criteria*

In assessing the suitability of a candidate for directorship, the following criteria (the "**Criteria**") should be considered:

(a) character and integrity;

(b) qualifications including professional qualifications, skills, knowledge, accomplishment and experience that are relevant to the Company's business and corporate strategy;

(c) diversity in all aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;

(d) commitment in respect of available time and relevant interest; and

(e) potential contributions that the individual can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.

The Nomination Committee will evaluate and recommend candidate(s) for the position of the independent non-executive Directors by taking into account (a) the factors set out in Rules 3.10(2) and 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange, subject to any amendments as may be made from time to time and/or any other rules imposed by the Stock Exchange from time to time; and (b) the Criteria.

### *Nomination Procedures*

The Nomination Committee will recommend to the Board for appointment as additional Director or to fill Board's casual vacancy in accordance with the following procedures:

(a) the Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, recommendations from personnel agents or as proposed by shareholders of the Company with due consideration given to the Criteria;

(b) the Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as interviews, background checks and third-party reference checks;

(c) the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

(d) the Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of a remuneration package of such candidate;

(e) the Remuneration Committee will make a recommendation to the Board on the proposed remuneration package; and

(f) all appointment of Directors will be confirmed by the signing of the consent to act as Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment, as the case may be) and filing of the same with the Companies Registry of Hong Kong and any other relevant government authorities.

The Nomination Committee will evaluate and recommend retiring Director(s) to the Board for re-appointment in accordance with the following procedures:

(a) the Nomination Committee and/or the Board should review the overall contribution and service of the retiring Director(s) to the Company and the level of participation and performance on the Board, including but not limited to the attendance of the meetings of the Board and/or its committees and general meetings;

(b) the Nomination Committee and/or the Board should also review and determine whether the retiring Director(s) continue(s) to satisfy the Criteria; and

(c) the Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

***Monitoring and Review of the Nomination Policy***

The Nomination Committee will monitor the implementation of the Nomination Policy and from time to time review the Nomination Policy, as appropriate, to ensure its effectiveness in complementing the Company's corporate strategy and business needs. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

## CORPORATE GOVERNANCE FUNCTIONS

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

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

## DIVIDEND POLICY

The Company intends to share its profit with shareholders in the form of semi-annual dividends in an aggregate amount per year of no less than 20% of the Company's annual consolidated net income attributable to its shareholders, subject to the criteria as set out below. The Dividend Policy allows the Company to declare special dividends from time to time in addition to the semi-annual dividends.

The Company's liability to pay dividends will depend upon, among other things, the Group's current and future operations, liquidity position and capital requirements, as well as dividends received from the Company's subsidiaries and associate companies. The payment of dividend by the Company is also subject to any restrictions under the Cayman Islands laws and the Company's Articles of Association.

## ACCOUNTABILITY AND AUDIT

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

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2018, presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects, and for ensuring that the financial report is prepared in accordance with applicable statutory requirements and accounting standards. To the best knowledge, information and belief of the Directors, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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

### Risk Management and Internal Control System

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

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

### Auditor's Remuneration

For the year ended December 31, 2018, the total remuneration paid or payable to the Company's auditors for audit services amounted to US$0.4 million.

## COMPANY SECRETARY

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

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

## SHAREHOLDERS' RIGHTS

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

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

### Constitutional Documents

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

### Communication with Shareholders and investor relations

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

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

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

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

## RISK MANAGEMENT REPORT

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

### 1. PRINCIPLE RISKS

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

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

| 1. STRATEGIC RISKS | | | |
|---|---|---|---|
| **Risk Description** | **Current Situation/Risk Mitigating Strategy** | **Key Performance Indicators (KPI) & Status** | **CHANGES IN 2018** |
| **1.1 Single Customer Concentration Risk:**<br>The Company currently sells a substantial portion of its camera modules and optical components to a limited number of customers. The Company's dependence on these customers may cause material fluctuations or declines in revenue. | **1. Current Situation**<br>- Key markets for smartphone including China are being saturated;<br>- Low level of technology innovation did not justify the high pricing strategy of the major US customer; and<br>- Chinese smartphone makers' enlarging market share led order reduction from both US major customer and LG.<br>- The major US customer's battery replacement service for old models lengthened customers' handset replacement cycle.<br>**2. Risk Mitigating Strategy**<br>- **Short Term:** Keep focusing on production yield enhancement and cost management to maintain price competitiveness and profitability of the business<br>- **Medium Term:** Upgrade skills and technology for high-end products and diversify product offering to the existing customers<br>- **Long Term:** Keep exploring new product and business opportunities activating new business development team other than smartphone industry | 1. # of days that the production yield is lower than the management's comfort zone<br>- No case to trigger an escalation to Group Risk Management Committee ("GRMC") in 2018<br>2. Revenue dependency on each customer and share allocation from the customers<br>- Monitoring purpose | • Competition in the supply chain due to increased # of suppliers<br>• Terminating loss making business (stopped supplying camera modules to Samsung)<br>• Lower than expected orders of new products from major US customer<br>• Chinese smartphone markers' continuously enlarging market share |
| **1.2 Technology Risk:**<br>The Company's continued success depends on its ability to respond to technology upgrade demanded by customers. It requires the Company's ability to maintain talented engineers. The Company's failure to further refine its technology and retain talented engineers may weaken its product competitiveness which may result in lower sales and market share. | **1. Current Situation**<br>- Highly talented engineers are scarce resource and maintaining talent pool is challenging due to relatively high turnover ratio<br>- Competition in the flip chip camera module business has been manageable due to high entry barrier led by advanced technology, significant investment and no assurance of sales volume<br>**2. Risk Mitigating Strategy**<br>- Keep hiring & retaining talented engineers by offering attractive compensation<br>- Enhancing talent pool retention program | 1. Retention ratio of the talent pool<br>- No case to trigger an escalation to GRMC in 2018<br>2. Maintained comfortable level of retention ratio in 2018 (80%)<br>3. A larger talent pool for 2019 has been established to retain more talented engineers | • Maintained high retention ratio of 2018 talent pool<br>• Strived to hire more local talented engineers<br>• Incentivized talented engineers with both monetary and non-monetary compensation<br>• Registered patents to secure our processing technology |

# Corporate Governance Report

**2. LEGAL & REGULATORY RISKS**

| Risk Description | Current Situation/Risk Mitigating Strategy | Key Performance Indicators (KPI) & Status | CHANGES IN 2018 |
|---|---|---|---|
| **2.1 Legal & Compliance Risk:** Non-compliance with Hong Kong Listing Rules and local regulations where we operate (Cayman, China, Hong Kong and Korea) may result in adverse publicity and potentially significant monetary damages | **1. Current Situation**<br>- No material violation or breach of Hong Kong Listing Rules and/or local regulations and laws where we operate (Cayman/China/Hong Kong and Korea)<br>**2. Risk Mitigating Strategy**<br>- Maintained external legal advisors for both Hong Kong and China to ensure a full compliance with Hong Kong listing rules and local regulations<br>- Conducting internal audit and mobilizing group risk management committee to manage any unexpected situation | 1. # of critical findings during monthly internal audit<br>2. # of enquiries, guidance or warnings from the Authority<br>- No case to trigger an escalation to GRMC in 2018 | • Maintained a sound risk management & internal control system<br>• Expanded support from external legal & compliance professionals |
| **2.2 Risk from mis-handling customers' confidential information:** The Company has signed Non-Disclosure Agreements ("NDA") with all customers and any breach of the NDAs may cause serious financial damages. | **1. Current Situation**<br>- No breach of NDAs has been escalated<br>- No inside information on disclosure case has been reported<br>**2. Risk Mitigating Strategy**<br>- Reinforcing the inside information handling policy<br>- Implementing high level of security system<br>- Strengthening internal audit processes<br>- Providing training on inside information handling policy to all employees | 1. # of security rule violations and the amount of financial loss caused by the violation<br>- No case to trigger an escalation to GRMC in 2018 | • Conducted regular NDA and inside information related training for all employees in 2018 |

**3. OPERATIONAL RISKS**

| Risk Description | Current Situation/Risk Mitigating Strategy | Key Performance Indicators (KPI) & Status | CHANGES IN 2018 |
|---|---|---|---|
| **3.1 Production & Operational Risks:** Securing sufficient factory labor in a timely manner is critical for executing production plan. Work stoppages and other labor-related issues may adversely affect our operation. | **1. Current Situation**<br>- Efficiently managed production in line with production plan by sourcing sufficient labor in a timely manner despite the seasonality and high turnover of China labor market in Dongguan<br>- There was no case in 2018 which triggered an escalation to GRMC<br>**2. Risk Mitigating Strategy**<br>- Expanding factory labor recruiting channel<br>- Initiated factory labor retention program<br>- Production line automation | 1. # of days with production shortage against production plan<br>2. No case to trigger an escalation to GRMC in 2018 | Sufficient liquidity of labor due to:<br>1. Lessened workforce required due to upgraded automation in the production line<br>2. Relatively low factory utilization rate due to reduced orders from customers led by fierce market competition and overall retreating smartphone industry |

**4. FINANCIAL RISKS**

| Risk Description | Current Situation/Risk Mitigating Strategy | Key Performance Indicators (KPI) & Status | CHANGES IN 2018 |
|---|---|---|---|
| **4.1 Foreign Exchange Risk:** Mismatching currencies in sales and procurement contracts may adversely affect the Company's financial results. Furthermore, operating subsidiaries in multiple countries increase FX exposure. | **1. Current Situation**<br>- Maintained USD as a core currency for both sales and procurements<br>- Operating subsidiaries in multiple countries caused FX valuation gain or loss which may mislead the Company's actual financial results<br>**2. Risk Mitigating Strategy**<br>- Maximizing natural hedging position by matching currencies in sales and procurements contracts<br>- Recording actual FX transaction gain or loss as well as FX valuation gain or loss on a regular basis to monitor the situation and providing this report to GRMC and Audit Committee on a regular basis for their management decision | 1. Natural hedging position (Total procurement amount settled in USD/Total sales settled in USD)<br>2. FX transaction gain or loss with a trigger point to make an escalation to GRMC and Audit Committee<br>3. No case to trigger an escalation to GRMC in 2018 | 1. Maintained the natural hedging position within the management's comfort zone; and<br>2. About 5.0% and 4.4% depreciation of CNY and KRW, respectively, in 2018 had led marginal FX transaction loss while sizable FX valuation gain. The situation was well within the management's comfort zone. |

Risk level gets higher　Risk level gets lower　Risk level remains unchanged

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

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

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

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

## 3. RISK APPETITE

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

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

## 4. RISK TAXONOMY

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

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

## 5. RISK MANAGEMENT PROCESS

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

### *A. Risk Identification*

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

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

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

### *C. Accountabilities*

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

### *D. Reporting*

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

## 6. RISK GOVERNANCE STRUCTURE

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

### *A. The Board of Directors*

The Board is responsible for:

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

### *B. Audit Committee*

The Audit Committee is responsible for:

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

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

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

### D. *Risk Management Team*

Risk Management Team is responsible for:

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

### E. *Internal Audit*

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

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

### F. *Senior Management*

Senior management of the Company is responsible for:

- providing direction and guidance within their areas of accountability so that subordinates best utilize their abilities in the preservation of the Company's resources;

- promoting, sponsoring and coordinating the development of a risk management culture within the organization;

- guiding the inclusion of risk management in all strategic and operational decision making; and

- possessing a clear profile of major risks within their area of control incorporating both opportunities and negative risks.

### G. *Line Management*

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

### H. *All Employees*

All employees of the Company are responsible for:

- acting at all times in a manner which does not place at risk the health and safety of themselves or any other person in the workplace;

- providing direction and training to persons for whom they have a supervisory responsibility or duty of care relating to health and safety; and

- identifying areas where risk management practices should be adopted and are to advise their supervisors accordingly.

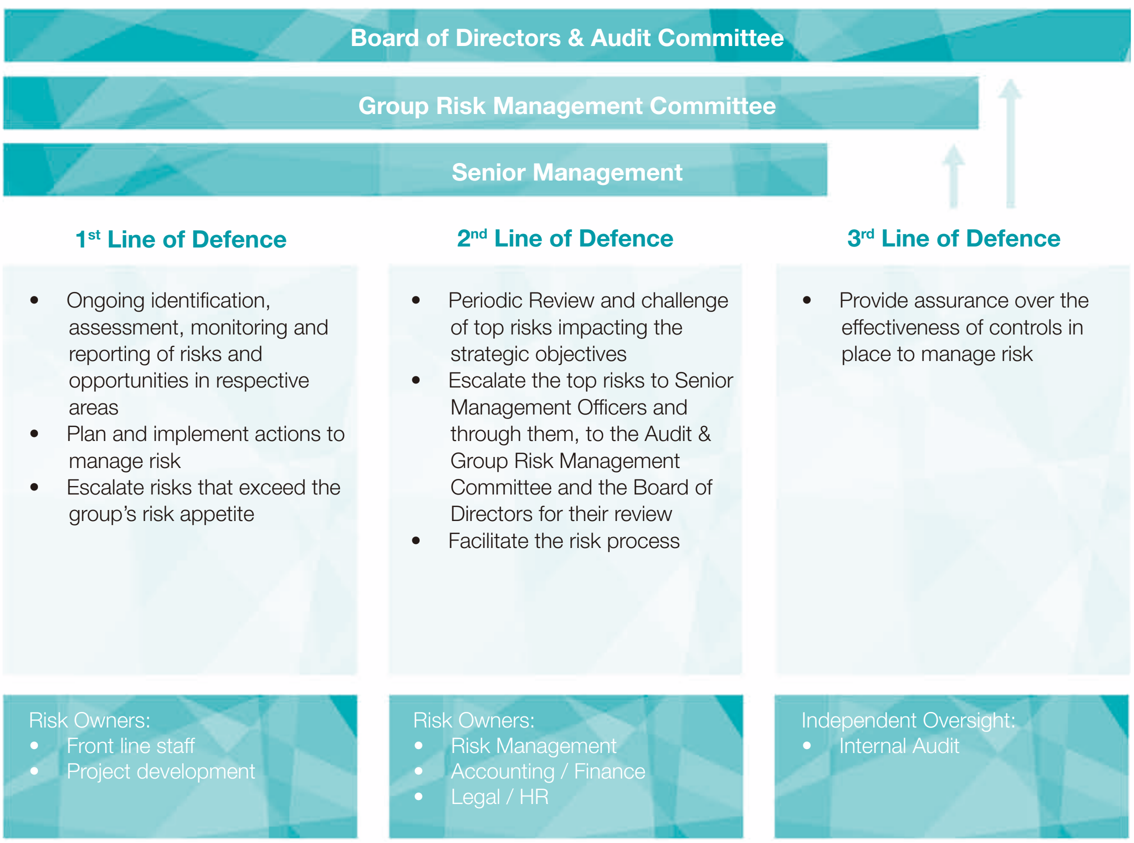
## 7. RISK MANAGEMENT FRAMEWORK

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

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

### *A. Three Lines of Defense Model*

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



### B. *Risk Rating Methodology*

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

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

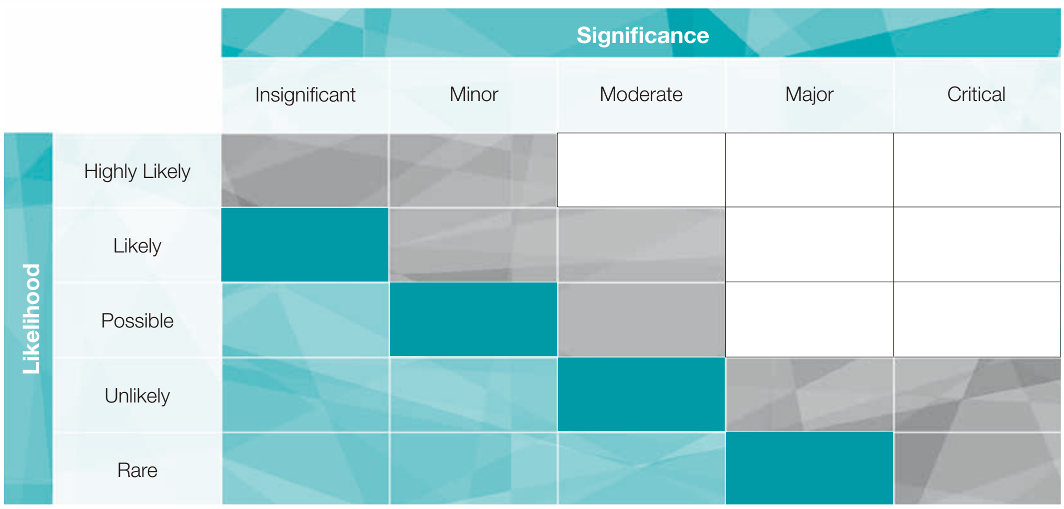
| Risk Rating Dimension | Insignificant(1) | Minor(2) | Moderate(3) | Major(4) | Critical(5) |
|---|---|---|---|---|---|
| Financial | Financial damage of event less than HKD1 million | Financial damage of event between HKD1 million and HKD5 million | Financial damage of event between HKD5 million and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

**[Table 2] Likelihood of Occurrence**

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

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

**[Picture 1] Risk Map**




Any risk located outside of the white area can be defined as the risk within our risk appetite. And any risk located in the white area will be continuously monitored and the Company will make every effort to bring it out of the area which is acceptable based on the Company's risk appetite.

**8. RISK MANAGEMENT TRAINING**

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

**9. RISK MANAGEMENT PERIODIC REVIEW**

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

## INTERNAL AUDIT

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

**1. OBJECTIVE**

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

**2. RESPONSIBILITY AND AUTHORITY**

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

**3. INDEPENDENCE**

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

## 4. OBJECTIVITY

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

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

## 5. AUDIT PROCESS

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

***A. Plan:***

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

***B. Notify:***

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

***C. Test:***

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

***D. Communicate:***

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

***E. Draft:***

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

***F. Management Response:***

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

***G. Review:***

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

***H. Distribute:***

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

***I. Verify:***

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

## 6. PRIORITIZATION OF THE AUDIT

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

A. **Financial Factor:** The significance of a process will be evaluated based on the amount of monetary impact of the process.

B. **Operational Factor:** The criticality of the process, when it has ERRORS or IRREGULARITIES, will be determined by time to be required for the corrective action.

C. **Regulatory Factor:** The rating of this category will be determined by the level of action from the authority.

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

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

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

## INTERNAL CONTROL FOR THE HANDLING INSIDE INFORMATION

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

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

### 1. APPLICABILITY

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

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

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

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

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

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

***B. Duty of confidentiality***

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

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

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

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

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

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

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

# Environmental, Social and Governance Report

## 1. INTRODUCTION

### 1.A. PREPARATION

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

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

As to cover extensive ESG practices, the Group decided to include the entire manufacturing sites located in both Huanan ("HN Factory") and Heng Keng ("HK Factory") regardless their contribution to the Group's overall business.

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

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

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

### 1.B. MATERIALITY AND RELEVANCE

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

**[TABLE 1] METHOD OF ENGAGEMENT**

| Stakeholders Engaged | Method of Engagement |
| --- | --- |
| ESG Working Group | • Areas of expertise<br>• Meetings<br>• Ratings<br>• Cross checking with GRMC |
| Group Risk Management Committee | • Areas of experience<br>• Meetings<br>• Ratings<br>• Ongoing engagement |
| Customers | • Areas of focus<br>• Global ESG guideline and standards<br>• Priorities of concerns |
| External Stakeholders | • Areas of interest<br>• Investor meetings and conference calls<br>• Overseas roadshows<br>• Investor forums and conferences |

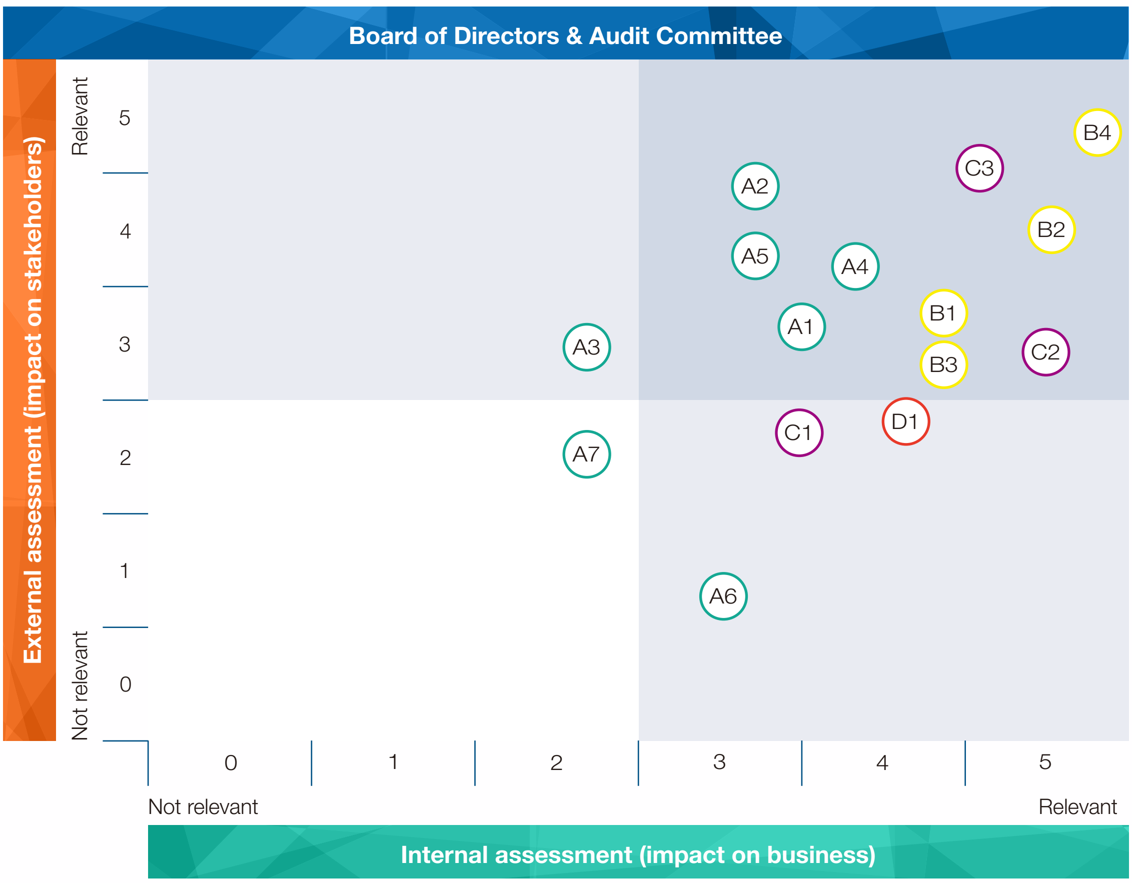
Based on the outcome of the ESG Working Group meetings, feedback from GRMC and external stakeholders as well as major customers' ESG guideline and priorities, the areas to be discussed were rated. The results of rating on each discussion point represents the Company's core organizational values, policies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

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

**[TABLE 2] ESG Discussion Points**

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

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




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

## 2. ENVIRONMENTAL

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

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



In the fiscal year of 2018, Cowell China was not aware of any material non-compliance with the relevant environmental laws and regulations that would have a significant impact on the Company.

### 2.A. EMISSIONS

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

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

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

***Greenhouse Gases***

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

The indirect emission results from consumption of electricity for the production facilities as well as air-conditioning and heating facilities. Total greenhouse gas emission is measured regularly by converting total consumption of electricity, LNG, diesel and car fuel into greenhouse gas using conversion factors from 2015 China Regional Power Grid Baseline Emission Factor for electricity and GB-T2589–2008 General Rules for other energy consumption. Based on this methodology, Cowell China's total greenhouse gas estimated in the fiscal year of 2017 and 2018 are shown below:

**[TABLE 3] GREENHOUSE GAS EMISSION**

| ITEM | UNIT | CONSUMPTION | | CONVERSION FACTOR | GREENHOUSE GAS ($tCO_2$) | |
|---|---|---|---|---|---|---|
| | | 2018 | 2017 | | 2018 | 2017 |
| Electricity | kwh | 63,938,571 | 70,437,320 | 0.0008959 | 57,283 | 63,105 |
| LNG | $m^3$ | 443,353 | 444,878 | 0.0022000 | 975 | 979 |
| Car Fuel | Liter | 87,442 | 98,385 | 0.0022630 | 198 | 223 |
| Diesel | Liter | 42,016 | 48,289 | 0.0026195 | 110 | 126 |
| **TOTAL EMISSION** | | | | | **58,566** | **64,433** |

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

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

***Air Emission***

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

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

| ENTITY | ITEM | UNIT | TOLERANCE | RESULT | | STATUS |
|---|---|---|---|---|---|---|
| | | | | 2018 | 2017 | |
| HN FACTORY | $NO_x$ | mg/$m^3$ | 200 | 104 | 140 | PASS |
| | $SO_2$ | mg/$m^3$ | 50 | * | 44 | PASS |
| | DUST | mg/$m^3$ | 30 | 14 | 21 | PASS |
| HK FACTORY (No LNG Boiler) | $NO_x$ | mg/$m^3$ | 200 | 0 | 0 | N.A.** |
| | $SO_2$ | mg/$m^3$ | 50 | 0 | 0 | N.A.** |
| | DUST | mg/$m^3$ | 30 | 0 | 0 | N.A.** |

* Amount less than the lowest limit of the inspection equipment
** Not Applicable

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

| ENTITY | ITEM | UNIT | TOLERANCE | RESULT | | STATUS |
|---|---|---|---|---|---|---|
| | | | | 2018 | 2017 | |
| HN FACTORY | $NO_x$ | mg/$m^3$ | 120 | 45 | 13 | PASS |
| | $SO_2$ | mg/$m^3$ | 500 | 9 | 37 | PASS |
| | DUST | mg/$m^3$ | 120 | 13 | 14 | PASS |
| HK FACTORY | $NO_x$ | mg/$m^3$ | 120 | 82 | 21 | PASS |
| | $SO_2$ | mg/$m^3$ | 500 | 9 | 26 | PASS |
| | DUST | mg/$m^3$ | 120 | 22 | 12 | PASS |

### *Waste Water*

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

The following table shows the results of inspections conducted in 2017 and 2018:

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

| ENTITY | ITEM | UNIT | MEP STANDARD(1) | INSPECTION RESULT 2018 | INSPECTION RESULT 2017 | STATUS |
|---|---|---|---|---|---|---|
| HN FACTORY | PH(3) | | 6.00 – 9.00 | 7.10 | 7.40 | PASS |
| | COD(4) | mg/L | 30.00 | 21.00 | 25.00 | PASS |
| | BOD(5) | mg/L | 6.00 | 3.80 | 5.80 | PASS |
| | T-N(6) | mg/L | 1.50 | 0.92 | 0.11 | PASS |
| | PETROLEUM | mg/L | 0.50 | 0.13 | 0.04 | PASS |

| ENTITY | ITEM | UNIT | MEP STANDARD(2) | INSPECTION RESULT 2018 | INSPECTION RESULT 2017 | STATUS |
|---|---|---|---|---|---|---|
| HK FACTORY | PH(3) | | 6.00 – 9.00 | 7.24 | 7.05 | PASS |
| | FLOTAGE | mg/L | 60.00 | 24.00 | 4.00 | PASS |
| | CHROMATICITY | | 40.00 | (7) | 2.00 | PASS |
| | PHOSPHATE | mg/L | 0.50 | 0.05 | 0.05 | PASS |
| | COD(4) | mg/L | 90.00 | 18.00 | 14.00 | PASS |
| | BOD(5) | mg/L | 20.00 | 4.40 | 3.10 | PASS |
| | T-N(6) | mg/L | 10.00 | 0.81 | 0.03 | PASS |
| | PETROLEUM | mg/L | 5.00 | 0.04 | 0.04 | PASS |

(1) Environmental Quality Standards for Surface Water GB38382002 Class 3 (地表水環境質量標準GB38382002 3類)
(2) Water Pollutant Emission Limit Standard DB44/26 Class 2001 (水污染物排放限制 DB44/26 2001第二時段1級標準水)
(3) PH: Potential of Hydrogen
(4) COD: Chemical Oxygen Demand
(5) BOD: Biochemical Oxygen Demand
(6) T-N: Total Nitrogen
(7) Amount less than the lowest limit of the inspection equipment

And the below table shows the amount of discharged water in the fiscal year of 2017 and 2018, which are all within the limits approved by the local authority:

### [TABLE 7] DISCHARGED WATER

| ENTITY | 2018 | 2017 |
|---|---|---|
| HN FACTORY | 2,113 $m^3$* | 524 $m^3$ |
| HK FACTORY | 16,618 $m^3$ | 19,460 $m^3$ |

* The amount of discharged water from HN Factory in 2018 was about 4 times of that in 2017 mainly due to upgraded cleaning processes.

***Hazardous & Non-Hazardous Waste***

Cowell China's hazardous and non-hazardous wastes are listed in the below table, which also shows total emitted amount of each item in the fiscal year of 2017 and 2018:

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

| ITEM | UNIT | HN FACTORY | | HK FACTORY | | SOURCE OF WASTES |
|---|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 | |
| **HAZARDOUS WASTES** | | | | | | |
| Lubricant | kg | 1,784 | 1,950 | * | * | Power generating |
| Chemical | kg | 1,555 | 2,714 | 350 | 1,235 | Cleaning (alcohol, acetone & solvent) |
| Fluorescent Lamps | kg | 3 | 326 | 120 | 631 | Lighting |
| Epoxy | kg | 1,024 | 1,500 | * | * | Production processing |
| Cleaning Cloth | kg | 5,891 | 4,195 | * | * | Cleaning (with chemicals) |
| **NON-HAZARDOUS WASTES** | | | | | | |
| Paper, Boxes, etc. | tonne | 48 | 113 | 20 | 32 | Packaging |
| Household & Food | tonne | 604 | 707 | 297 | 699 | Canteens and Dormitory |

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

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

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

| NO | TYPE | COWELL CHINA | | WASTE TREATMENT COMPANIES | | |
|---|---|---|---|---|---|---|
| | | USAGE | TREATMENT | COLLECTION | TREATMENT | END PROCESS |
| 1 | NON-HAZARDOUS WASTE | HOUSEHOLD GARBAGE & PACKAGING WASTE (BOX & PLASTIC PACKAGING MATERIALS) | STORING IN GENERAL WASTE STORAGE AREA EVERYDAY | URBAN HOUSEHOLD GARBAGE PROCESSING CENTER EVERYDAY | FILTERING & SORTING (RECYCLE & NON-RECYCLE WASTE) | * RECYCLABLE WASTE- RECYCLE<br>* NON-RECYCLABLE WASTE – INCINERATION AND LANDFILL |
| 2 | FOOD WASTE | FOOD WASTE FROM CANTEEN | STORING IN THE DESIGNATED AREA EVERYDAY | EVERYDAY BY PIG FARM | FILTERING & SORTING | FEED FOR PIG FARMING |
| 3 | HAZARDOUS WASTE | ALCOHOL, ACETONE & SOLVENT (HW42) FOR CLEANING | COLLECTING WASTE CHEMICALS IN 200 LITER CONTAINER EVERYDAY & STORE IN THE DESIGNATED HAZARDOUS WASTE AREA | EVERY 2 MONTHS BY PROFESSIONAL HAZARDOUS WASTE TREATMENT COMPANY | TREATMENT FOR RECYCLING | RESALE |
| 4 | HAZARDOUS WASTE | WASTE LUBRICANT FROM POWER GENERATORS (HW08) | COLLECTING WASTE LUBRICANT IN 20 LITER CONTAINER & STORE IN THE DESIGNATED HAZARDOUS WASTE AREA | EVERY 6 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY | TREATMENT FOR RECYCLING | RESALE |
| 5 | HAZARDOUS WASTE | WASTE EPOXY (HW13) FROM PRODUCTION | STORING IN THE DESIGNATED HAZARDOUS WASTE STORAGE AREA | EVERY 3 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY | FILTERING | INCINERATION |
| 6 | HAZARDOUS WASTE | WASTE CLOTH AFTER CLEANING USING CHEMICALS | STORING IN THE DESIGNATED HAZARDOUS WASTE STORAGE AREA | EVERY 3 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY | FILTERING | INCINERATION |

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

***Packaging material consumption***

The main packaging materials consumed by Cowell China during the fiscal year of 2018 include trays and carton boxes. These are in line with main customers' standard packaging requirements. The total weight of trays and carton boxes used for the shipments of camera modules in the fiscal year of 2018 were approximately 246.4 tonnes and 85.0 tonnes, respectively, as compared to 296.6 tonnes and 109.8 tonnes, respectively, in 2017. Each carton box takes up to 60 trays. The decreased usage of the packaging materials was led by the decreased shipments.

## 2.B. ENERGY AND WATER USAGE

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

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

LNG is required to control humidity in the clean rooms of the production site and used for preparing meals for the employees of Cowell China. During the fiscal year of 2017 and 2018, total consumption of energy and water are provided in the following table:

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

| ITEM | UNIT | HN FACTORY | | HK FACTORY | | TOTAL | |
|---|---|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Electricity | kwh | 46,489,451 | 47,460,600 | 17,449,120 | 22,976,720 | 63,938,571 | 70,437,320 |
| LNG | $m^3$ | 403,373 | 388,683 | 39,980 | 56,195 | 443,353 | 444,878 |
| Water | $m^3$ | 290,501 | 348,116 | 256,358 | 328,066 | 546,859 | 676,182 |

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

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

Cowell China does not have any issue in sourcing water; however, the management has advocated water saving and efficiency initiatives. As a good practice and internal guideline, more than 50% of HN Factory's total discharging water has been reused since April 2017.

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

**[TABLE 11] 2018 ENERGY SAVING INITIATIVES**

| PROJECT DESCRIPTION | OBJECTIVES | OUTCOME |
|---|---|---|
| Optimizing management of factory workers' dormitories | — Saving electricity<br>— Saving water<br>— Reducing greenhouse gas | — 639,902kw electricity savings<br>— 20,810 $m^3$ water savings<br>— 573 $tCO_2$ Greenhouse gas reduction |

## 3. SOCIAL RESPONSIBILITY

### 3.A. EMPLOYMENT

All employees of Cowell China totaling 2,394 as of December 31, 2018 are full time employees and well diversified in terms of geographical region, age group and gender. The detailed breakdown of our employee by region, age group and gender as well as turnover rate is as follows:

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

| | Region | # of Employees at FYE'18 | % | # of Employees Resigned in 2018 | Turnover Ratio |
|---|---|---|---|---|---|
| By Region | Central China | 892 | 37.3% | 1,187 | 21.1% |
| | South China | 694 | 29.0% | 955 | 17.0% |
| | Southwest | 422 | 17.6% | 690 | 12.3% |
| | Northwest | 136 | 5.7% | 156 | 2.78% |
| | Other regions in China | 159 | 6.6% | 186 | 3.31% |
| | Korea | 91 | 3.8% | 50 | 0.9% |
| By Age Group | Below 30 | 1,360 | 56.8% | 2,469 | 44.0% |
| | 30s | 852 | 35.6% | 714 | 12.7% |
| | 40s | 157 | 6.6% | 36 | 0.6% |
| | 50 & above | 25 | 1.04% | 5 | 0.1% |
| By Gender | Female | 1,493 | 62.4% | 2,265 | 40.3% |
| | Male | 901 | 37.6% | 959 | 17.1% |
| | **TOTAL** | **2,394** | **100.0%** | **3,224** | **57.4%** |

* Turnover Rate = # of employees resigned in 2018/(# of employees at FYE'18+# of employees resigned in 2018)

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

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

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

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

***Working Hours and Compensation***

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

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

***Other Benefits and Welfare***

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

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

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

## 3.B. HEALTH AND SAFETY

***Occupational Health, Safety and Hazard Prevention***

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

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

1. Providing employees with appropriate personal protective equipment with manual and teaching them how to properly use the equipment;

2. Training employees to adhere to Cowell China's health and safety policy; and

3. Conducting fire drills on a semi-annual basis (day & night fire drills) at the production, office and residential areas within Cowell China

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

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

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

In the fiscal year of 2018, an Accident Rate of 0.09 was reported. The occupational health and safety incidents occurred in 2018 were investigated and proper corrective actions were conducted. All these activities have been reported to Group Risk Management Committee.

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

| | Unit | 2018 | 2017 |
|---|---|---|---|
| Total # of Work-related Fatalities | # of People | 0 | 0 |
| Work-related Fatalities Rate | Per 1,000 Workers | 0.00% | 0.00% |

**[TABLE 14] WORK INJURIES**

| | Unit | 2018 | 2017 |
|---|---|---|---|
| Accidents * | # of Accidents | 3 | 6 |
| Accident Rate | Per 1,000 Workers | 0.09 | 0.12 |
| Lost Hours | # of Hours | 188 | 2,438 |

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

***Emergency Prevention and Readiness***

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

## 3.C. DEVELOPMENT AND TRAINING

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

The following table shows a summary of regular trainings for Cowell China factory employees in the fiscal year of 2018:

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

| Training Type | Training Subjects | Target Audience | 2018 # of Attendees | 2017 # of Attendees | Training Hour | Frequency |
|---|---|---|---|---|---|---|
| New Employee Orientation | 1. Company Introduction;<br>2. Code of Conduct;<br>3. Health & Safety;<br>4. Disciplinary Regulations;<br>5. Corporate Social Responsibility;<br>6. Safety Gear Manual;<br>7. Clean Room Rules;<br>8. Security Regulations;<br>9. Manufacturing Processes;<br>10. Terminology;<br>11. Tool Manual. | Newly hired operators | Male: 4,450<br>Female: 973 | Male: 7,772<br>Female: 3,661 | 2 days<br>(8 hours per day) | 1st and 2nd day of employment |
| Post-promotion Training | 1. Floor Management;<br>2. Code of Conduct;<br>3. Corporate Social Responsibility;<br>4. Health & Safety;<br>5. Security Regulations;<br>6. Leadership Skill;<br>7. Interpersonal Skill;<br>8. Effective Communication;<br>9. Leader's Role & Team Spirit. | 1. Leader<br>2. Line Manager<br>3. Processing Manager | Male: 51<br>Female: 34 | Male: 122<br>Female: 81 | 8 hours | Semi-annually |
| General Annual Training | 1. Roles & Responsibilities;<br>2. Code of Conduct;<br>3. Corporate Social Responsibility;<br>4. Working Attitude;<br>5. Chemical Handling Instruction;<br>6. Security Regulations;<br>7. People Management;<br>8. Interpersonal Skill;<br>9. Improving Productivity;<br>10. Leader's Role & Team Spirit. | 1. Line Manager<br>2. Processing Manager | Male: 182<br>Female: 114 | Male: 422<br>Female: 328 | 8 hours | Annually<br>(From November to December) |
| Team Spirit Building Training | Team Spirit Building Training (Outdoor Activities) | 1. Line Manager<br>2. Processing Manager | Male: 142<br>Female: 89 | Male: 133<br>Female: 120 | 8 hours | Annually<br>(From May to June) |

## 3.D. LABOR STANDARDS

***Anti-harassment and Abuse***

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

***Prevention of Involuntary Labor***

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

***Prevention of Underage Labor***

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

The following procedures are the synopsis of the policy:

1. All applicants for employment must present valid identification documents;

2. All applicants for employment must be interviewed by three interviewers; and

3. All documents provided and the results of the interviews will be carefully reviewed by both HR manager and team head of the hiring department.

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

## 3.E. SUPPLY CHAIN MANAGEMENT

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

"Cowell Suppliers' Day", the annual suppliers' conference, is one of most important communication methods that Cowell China has adopted for many years. During the annual suppliers' conference, the Company shared with suppliers not only the Company's business snapshot and outlook, but also Cowell's Supplier Code of Conduct specifying business ethics, fair treatment, environmental protection, no harmful substances use, prohibition of underage labor, health and safety of workers, etc. At the annual suppliers' conference held on May 17, 2018, 'Suppliers of the Year' awards were given to a number of suppliers who would be a role model to others.

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

***Suppliers' ESG Requirements***

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

***Supplier Selection Process***

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

1. Financial condition of the supplier

2. Shipping track record

3. Product quality assurance

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

The following shows geographical diversification of Cowell China's suppliers in 2018:

**[TABLE 16] SUPPLIES BY GEOGRAPHY**

| SUPPLIER LOCATION | | 2018 # OF SUPPLIERS | 2017 # OF SUPPLIERS |
|---|---|---|---|
| China | South China | 216 | 267 |
| | Middle China | 31 | 37 |
| | North China | 6 | 8 |
| | West China | 1 | 1 |
| Korea | | 59 | 43 |
| Japan | | 9 | 8 |
| Hong Kong | | 12 | 10 |
| Others | | 17 | 11 |
| **Total** | | **351** | **385** |

**[TABLE 17] LENGTH OF RELATIONSHIP**

| LENGTH OF RELATIONSHIP | 2018 # OF SUPPLIERS | 2017 # OF SUPPLIERS |
|---|---|---|
| Less than 1 year | 22 | 30 |
| 1~2 years | 37 | 105 |
| More than 3 years | 292 | 250 |
| **Total** | **351** | **385** |

In terms of geography, suppliers of Cowell China are widely diversified, but majority of Chinese suppliers are located in South China. Furthermore, about 83% of total suppliers have more than 3 years of business relationship with Cowell China while less than 7% of total suppliers have less than 1 year of business relationship.

## 3.F. PRODUCT RESPONSIBILITY

Cowell China's continued effort in improving quality management system has been recognized by successful renewal of ISO 9001: 2015. This ISO 9001: 2015 was based on the following eight quality management principles which would further help Cowell China improve its performance:

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



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

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

In accordance with the non-disclosure agreement ("NDA") agreed with the customers, all manufacturing activities within Cowell China have been treated in a highly confidential manner and the whole property of Cowell China is secured as the restricted area where only authorized persons can enter. Any violation of NDA requirement is regularly reviewed by both internal audit team and legal team and the outcome of the regular review is reported to GRMC, on a monthly basis, which determines further escalation to the Audit Committee or the board of directors. In addition, this agenda has been regularly specified in the GRMC report which has been reported to the Audit Committee on a quarterly basis. In the fiscal year of 2018, there has been no violation reported to either GRMC or Audit Committee.

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

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

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

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

### 3.G. ANTI-CORRUPTION

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

The followings are Cowell China's corruption prevention practices:

1. No monetary gift should be given or received;

2. A pre-approval must be sought when any employee of Cowell China needs to take part in activities including meals with suppliers or any relevant party outside of Cowell China;

3. No employee of Cowell China is allowed to use Cowell China's business opportunities for personal interest or benefit; and

4. All employees of Cowell China must attend "Anti-Corruption" training annually.

Furthermore, a suitable whistleblowing policy has been adopted by the management, which enables employees and other stakeholders to escalate any suspected misconduct or malpractice within Cowell China without any retribution. In the fiscal year of 2018, there was no case relating to anti-corruption reported.

### 3.H. COMMUNITY INVESTMENT

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

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

1. Fighting Poverty

2. Helping young people's education

3. Caring the elderly

4. Protecting environment

5. Supporting community development

In the fiscal year of 2018, the Group has sponsored or donated to:

| | | |
|---|---|---|
| Liaobu Social Affairs Bureau | RMB50,000 | (US$7,568) |

* 2018 average foreign exchange rate (RMB/USD=6.6070)

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|---|---|---|---|
| **General Disclosures & KPIs** | **Description** | **Page number** | **Remarks** |
| **SUBJECT AREA A. ENVIRONMENTAL** | | | |
| **Aspect A1: Emissions** | | | |
| General Disclosure | | 67–73 | ISO 14001:2015 |
| KPI A1.1 | The types of emissions and respective emission data. | 69 | [TABLE 4]<br>[TABLE 5] |
| KPI A1.2 | Greenhouse gas emissions in total (in tonnes) | 68–69 | [TABLE 3] |
| KPI A1.3 | Total hazardous waste produced (in tonnes) | 71 | [TABLE 8] |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) | 71 | [TABLE 8] |
| KPI A1.5 | Description of measures to mitigate emissions and results achieved. | 71–73 | |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | 72 | [TABLE 9] |
| **Aspect A2: Use of Resources** | | | |
| General disclosure | | 70–73 | |
| KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity | 73 | [TABLE 10] Energy Consumption |
| KPI A2.2 | Water consumption in total and intensity | 70, 71, 73 | [TABLE 6] Water Inspection Results<br>[TABLE 7] Discharged Water<br>[TABLE 10] Water Consumption |
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | 73 | [TABLE 11] 2017 Energy Saving Initiatives |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is t for purpose, water efficiency initiatives and results achieved. | 73 | |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) | 72 | |
| **Aspect A3: The Environment and Natural Resources** | | | |
| General disclosure | | 67, 70, 72, 73 | |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | | Natural resources are not material to our operation. |

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|---|---|---|---|
| **General Disclosures & KPIs** | **Description** | **Page number** | **Remarks** |
| **SUBJECT AREA B. SOCIAL** | | | |
| **EMPLOYMENT & LABOUR PRACTICES** | | | |
| **Aspect B1: Employment** | | | |
| General Disclosure | | 74–75 | There was no material non-compliance regarding employment and labour practices during the fiscal year of 2018 |
| KPI B1.1 | Total workforce by gender, employment type, age group and geographical region. | 74 | [TABLE 12] |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | 74 | [TABLE 12] |
| **Aspect B2: Health and Safety** | | | |
| General Disclosure | | 76–77 | |
| KPI B2.1 | Number and rate of work-related fatalities. | 77 | [TABLE 13] |
| KPI B2.2 | Lost days due to work injury. | 77 | [TABLE 14] |
| KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | 76, 77 | Health & Safety Day'<br>Emergency Prevention & Readiness |
| **Aspect B3: Development and Training** | | | |
| General Disclosure | | 77 | |
| KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | 78 | [TABLE 15] |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | 78 | [TABLE 15] |
| **Aspect B4: Labour Standards** | | | |
| General Disclosure | | 79 | Summary of Labor Policy |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | 79 | |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | 79 | |

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|---|---|---|---|
| **General Disclosures & KPIs** | **Description** | **Page number** | **Remarks** |
| **OPERATING PRACTICE** | | | |
| **Aspect B5: Supply Chain Management** | | | |
| General Disclosure | | 79–81 | |
| KPI B5.1 | Number of suppliers by geographical region. | 81 | [TABLE 16]<br>[TABLE 17] |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | 80–81 | |
| **Aspect B6: Product Responsibility** | | | |
| General Disclosure | | 82 | ISO 9001:2015 |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | | Not relevant to our operation |
| KPI B6.2 | Number of products and service related complaints received & how they are dealt with. | | No complaint received |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | 81–83 | |
| KPI B6.4 | Description of quality assurance process and recall procedures. | 82 | |
| KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | 82 | |
| **Aspect B7: Anti-corruption** | | | |
| General Disclosure | | 83 | |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | | No legal cases regarding corrupt practices |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored | 83 | |
| **COMMUNITY** | | | |
| **Aspect B8: Community Investment** | | | |
| General Disclosure | | 83 | |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | 84 | |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | 84 | |

# Independent Auditor's Report

KPMG

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

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

## Opinion

We have audited the consolidated financial statements of Cowell e Holdings Inc. ("the Company") and its subsidiaries ("the Group") set out on pages 93 to 155, which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## Basis of opinion

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

## 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.

| **Revenue recognition** | |
|---|---|
| *Refer to accounting policy note 1(q) and note 3 to the consolidated financial statements* | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| Revenue mainly comprises sales of camera modules and optical components to customers.<br><br>The Group enters into a framework sale and purchase agreement with each major customer and manufactures and sells its products in accordance with the terms of separate purchase orders.<br><br>For the majority of the Group's sales, once the products are delivered to the location designated by the customer (either the shipping port or the destination port), the control of the goods are considered to have been transferred to the customer and revenue is recognised accordingly.<br><br>We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations. | Our audit procedures to assess the recognition of revenue included the following:<br><br>• evaluating the design, implementation and operating effectiveness of management's key internal controls which govern revenue recognition;<br><br>• inspecting key customer contracts to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards;<br><br>• comparing sales transactions, on a sample basis, with the underlying sales invoices and shipping documents to assess whether the related revenue was recognised in the Group's revenue recognition accounting policies;<br><br>• assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the framework sale and purchase agreement by inspecting the relevant underlying shipping documents which indicated the date of delivery of the goods to the location designated by the customer;<br><br>• inspecting a sample of credit notes issued after the financial year end and evaluating whether the related adjustments to revenue had been recognised in the appropriate financial period;<br><br>• inspecting all manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing details of the adjustments with relevant underlying documentation. |

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

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

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

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

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

## Responsibilities of the directors for the consolidated financial statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

***KPMG***
*Certified Public Accountants*

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

March 22, 2019

# Consolidated Statement of Profit or Loss

for the year ended December 31, 2018
(Expressed in United States dollars)

| | Note | 2018 $'000 | 2017 (Note) $'000 |
|---|---|---|---|
| **Revenue** | 3 | **535,862** | 740,734 |
| Cost of sales | | **(483,567)** | (666,507) |
| **Gross profit** | | **52,295** | 74,227 |
| Other revenue | 4 | **2,749** | 2,968 |
| Other net income/(loss) | 4 | **1,027** | (3,651) |
| Selling and distribution expenses | | **(2,384)** | (3,168) |
| Administrative expenses | | **(39,360)** | (39,263) |
| **Profit from operations** | | **14,327** | 31,113 |
| Finance costs | 5(a) | **(188)** | (729) |
| Donation | | **(8)** | (29) |
| **Profit before taxation** | 5 | **14,131** | 30,355 |
| Income tax | 6 | **(225)** | (2,736) |
| **Profit for the year** | | **13,906** | 27,619 |
| **Earnings per share** | 10 | | |
| Basic | | **$0.017** | $0.033 |
| Diluted | | **$0.017** | $0.033 |

Note: The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 99 to 155 form part of these consolidated financial statements. Details of dividends payable to equity shareholder of the Company attributable to the profit for the year are set out in note 22(b).

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended December 31, 2018
(Expressed in United States dollars)

| | Note | 2018<br>$'000 | 2017<br>(Note)<br>$'000 |
|---|---|---|---|
| **Profit for the year** | | **13,906** | 27,619 |
| **Other comprehensive income for the year (after tax adjustments):** | 9 | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translation of financial statements | | **(15,377)** | 18,551 |
| *Items that will not be reclassified to profit or loss* | | | |
| Remeasurement of net defined benefit liability | | **(87)** | 34 |
| | | **(15,464)** | 18,585 |
| **Total comprehensive income for the year** | | **(1,558)** | 46,204 |

Note: The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 99 to 155 form part of these consolidated financial statements.

# Consolidated Statement of Financial Position

for the year ended December 31, 2018
(Expressed in United States dollars)

| | Note | 2018<br>$'000 | 2017<br>(Note)<br>$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *11* | **105,168** | 121,343 |
| Intangible assets | *12* | **7,516** | 8,079 |
| Other receivables | *15(b)* | **5,559** | 6,628 |
| Deferred tax assets | *21(b)* | **1,632** | 832 |
| | | **119,875** | 136,882 |
| **Current assets** | | | |
| Inventories | *14* | **66,666** | 107,366 |
| Trade and other receivables | *15* | **60,808** | 139,904 |
| Current tax recoverable | *21(a)* | **711** | 1,221 |
| Pledged deposits | *16(a)* | **3,231** | 3,427 |
| Bank deposits | *16(b)* | **20,757** | 21,409 |
| Cash and cash equivalents | *16(b)* | **112,304** | 93,937 |
| | | **264,477** | 367,264 |
| **Current liabilities** | | | |
| Trade and other payables | *17* | **54,183** | 117,952 |
| Bank loans | *18* | **—** | 47,114 |
| Current tax payable | *21(a)* | **3,691** | 5,359 |
| | | **57,874** | 170,425 |
| **Net current assets** | | **206,603** | 196,839 |
| **Total assets less current liabilities** | | **326,478** | 333,721 |

# Consolidated Statement of Financial Position

for the year ended December 31, 2018
(Expressed in United States dollars)

| | Note | 2018<br>$'000 | 2017<br>(Note)<br>$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Net defined benefit retirement obligation | *19* | **164** | 225 |
| | | **164** | 225 |
| **NET ASSETS** | | **326,314** | 333,496 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *22(c)* | **3,326** | 3,326 |
| Reserves | | **322,988** | 330,170 |
| **TOTAL EQUITY** | | **326,314** | 333,496 |

Approved and authorised for issue by the board of directors on March 22, 2019.

Mr. Lee Dong Goo
Director

Mr. Seong Seokhoon
Director

Note: The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 99 to 155 form part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

for the year ended December 31, 2018
(Expressed in United States dollars)

| | Note | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Capital redemption reserve $'000 | Other reserve $'000 | General reserve fund $'000 | Exchange reserve $'000 | Retained profits $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2017** | | 3,326 | 66,398 | 3,448 | 7 | 762 | 8,125 | (23,679) | 238,976 | 297,363 |
| **Changes in equity for 2017:** | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | – | 27,619 | 27,619 |
| Other comprehensive income | 9 | – | – | – | – | – | – | 18,551 | 34 | 18,585 |
| Total comprehensive income | | – | – | – | – | – | – | 18,551 | 27,653 | 46,204 |
| Dividends approved in respect of the previous year | 22(b) | – | (8,548) | – | – | – | – | – | – | (8,548) |
| Transfer from retained profits | | – | – | – | – | – | 2,057 | – | (2,057) | – |
| Equity settled share-based transactions | | – | – | 317 | – | – | – | – | – | 317 |
| Dividends declared in respect of the current year | 22(b) | – | – | – | – | – | – | – | (1,840) | (1,840) |
| | | – | (8,548) | 317 | – | – | 2,057 | – | (3,897) | (10,071) |
| **Balance at December 31, 2017** | | 3,326 | 57,850 | 3,765 | 7 | 762 | 10,182 | (5,128) | 262,732 | 333,496 |
| **Balance at January 1, 2018 (Note)** | | **3,326** | **57,850** | **3,765** | **7** | **762** | **10,182** | **(5,128)** | **262,732** | **333,496** |
| Impact on initial application of IFRS 9 | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(114)** | **(114)** |
| **Adjusted balance at January 1, 2018** | | **3,326** | **57,850** | **3,765** | **7** | **762** | **10,182** | **(5,128)** | **262,618** | **333,382** |
| **Changes in equity for 2018:** | | | | | | | | | | |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **13,906** | **13,906** |
| Other comprehensive income | 9 | **–** | **–** | **–** | **–** | **–** | **–** | **(15,377)** | **(87)** | **(15,464)** |
| Total comprehensive income | | **–** | **–** | **–** | **–** | **–** | **–** | **(15,377)** | **13,819** | **(1,558)** |
| Dividends approved in respect of the previous year | 22(b) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(5,524)** | **(5,524)** |
| Transfer from retained profits | | **–** | **–** | **–** | **–** | **–** | **381** | **–** | **(381)** | **–** |
| Equity settled share-based transactions | | **–** | **–** | **14** | **–** | **–** | **–** | **–** | **–** | **14** |
| Share options lapsed | | **–** | **–** | **(530)** | **–** | **–** | **–** | **–** | **530** | **–** |
| | | **–** | **–** | **(516)** | **–** | **–** | **381** | **–** | **(5,375)** | **(5,510)** |
| **Balance at December 31, 2018** | | **3,326** | **57,850** | **3,249** | **7** | **762** | **10,563** | **(20,505)** | **271,062** | **326,314** |

Note: The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 99 to 155 form part of these consolidated financial statements.

# Consolidated Cash Flow Statement

for the year ended December 31, 2018
(Expressed in United States dollars)

| | Note | 2018<br>$'000 | 2017<br>(Note)<br>$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | *16(c)* | 87,353 | 60,398 |
| Tax refunded | | | |
| — Hong Kong Profits Tax refunded | | 616 | 5,234 |
| — Overseas tax paid | | (2,732) | (4,302) |
| **Net cash generated from operating activities** | | 85,237 | 61,330 |
| **Investing activities** | | | |
| Payment for purchase of property, plant and equipment | | (15,117) | (15,800) |
| Proceeds from sale of property, plant and equipment | | 140 | 30 |
| Payment for purchase of intangible assets | | (1,356) | (3,074) |
| Interest received | | 2,217 | 855 |
| Decrease in bank deposits | | 652 | 18,266 |
| **Net cash (used in)/generated from investing activities** | | (13,464) | 277 |
| **Financing activities** | | | |
| Proceeds from bank loans | *16(d)* | 269,208 | 585,466 |
| Repayment of bank loans | *16(d)* | (316,322) | (627,601) |
| Interest paid | *16(d)* | (188) | (729) |
| Decrease/(increase) in pledged deposits | | 196 | (234) |
| Dividends paid to equity shareholders of the Company | | | |
| — Final dividend of the previous year | | (5,524) | (8,548) |
| — Interim dividend of the current year | | — | (1,840) |
| **Net cash used in financing activities** | | (52,630) | (53,486) |
| **Net increase in cash and cash equivalents** | | 19,143 | 8,121 |
| **Cash and cash equivalents at 1 January** | *16(b)* | 93,937 | 85,435 |
| **Effect of foreign exchange rate changes** | | (776) | 381 |
| **Cash and cash equivalents at 31 December** | *16(b)* | 112,304 | 93,937 |

Note: The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 99 to 155 form part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 1 Significant accounting policies

### (a) Statement of compliance

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

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

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

The consolidated financial statements for the year ended December 31, 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

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

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

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

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

## 1 Significant accounting policies (continued)

### (c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, Prepayment features with negative compensation which have been adopted at the same time as IFRS 9.

#### *(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at January 1, 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at January 1, 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained profits at January 1, 2018.

| | $'000 |
|---|---|
| **Retained profits** | |
| Recognition of additional expected credit losses on financial assets measured at amortised cost and net decrease in retained profits at January 1, 2018 | 114 |

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Credit losses*

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

## 1 Significant accounting policies (continued)

### (c) Changes in accounting policies (continued)

#### (i) *IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation* (continued)

a. *Credit losses* (continued)

The Group applies the new ECL model to the financial assets measured at amortised cost (including trade and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see notes 1(h)(i) and (ii).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at December 31, 2017 with the opening loss allowance determined in accordance with IFRS 9 as at January 1, 2018.

| | $'000 |
|---|---|
| Loss allowance at December 31, 2017 under IAS 39 | 104 |
| Additional credit loss recognised at January 1, 2018 on trade receivables | 114 |
| Loss allowance at January 1, 2018 under IFRS 9 | 218 |

b. *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained profits and reserves as at January 1, 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

#### (ii) *IFRS 15, Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 1 Significant accounting policies (continued)

### (c) Changes in accounting policies (continued)

#### (ii) *IFRS 15, Revenue from contracts with customers* (continued)

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of IFRS 15 does not have any material impact on the financial position and the financial result of the Group.

#### (iii) *IFRIC 22, Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "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) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

### (d) Subsidiaries

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

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

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

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

## 1 Significant accounting policies (continued)

### (d) Subsidiaries (continued)

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

### (e) Other property, plant and equipment

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

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

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

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

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

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

### (f) Intangible assets

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

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

## 1 Significant accounting policies (continued)

### (f) Intangible assets (continued)

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

| | | |
|---|---|---|
| — | Development costs | 5 years |
| — | Software | 5 to 10 years |

Both the period and method of amortisation are reviewed annually.

Club membership are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

### (g) Operating lease charges

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

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

### (h) Credit losses and impairment of assets

#### *(i) Credit losses*

*(A) Policy applicable from January 1, 2018*

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

## 1 Significant accounting policies (continued)

### (h) Credit losses and impairment of assets (continued)

#### *(i)* ***Credit losses*** (continued)

*(A) Policy applicable from January 1, 2018* (continued)

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

## 1 Significant accounting policies (continued)

### (h) Credit losses and impairment of assets (continued)

#### *(i)* ***Credit losses*** (continued)

*(A) Policy applicable from January 1, 2018* (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

*(B) Policy applicable prior to January 1, 2018*

Prior to January 1, 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulties of the debtor;

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

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

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

## 1 Significant accounting policies (continued)

### (h) Credit losses and impairment of assets (continued)

#### *(i)* ***Credit losses*** (continued)

(B) *Policy applicable prior to January 1, 2018* (continued)

If any such evidence existed, an impairment loss for trade and other receivables was determined and recognised as follows:

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

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

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

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

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

— property, plant and equipment;

— intangible assets; and

— interests in subsidiaries in the Company's statement of financial position.

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

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 1 Significant accounting policies (continued)

### (h) Credit losses and impairment of assets (continued)

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

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

### (i) Inventories

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

## 1 Significant accounting policies (continued)

### (i) Inventories (continued)

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

### (j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(h)(i)).

### (k) Interest-bearing borrowings

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

### (l) Trade and other payables

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

### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(h)(i).

### (n) Employee benefits

#### *(i) Short term employee benefits and contributions to defined contribution retirement plans*

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

## 1 Significant accounting policies (continued)

### (n) Employee benefits (continued)

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

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

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

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

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

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

## 1 Significant accounting policies (continued)

### (n) Employee benefits (continued)

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

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

#### *(iv)* ***Termination benefits***

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

### (o) Income tax

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

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

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

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

## 1 Significant accounting policies (continued)

### (o) Income tax (continued)

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

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

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

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

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

### (p) Provisions and contingent liabilities

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

## 1 Significant accounting policies (continued)

### (p) Provisions and contingent liabilities (continued)

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

### (q) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

#### *(i) Sales of goods*

Revenue is recognised when the customer takes possession of and accepts the goods. If the goods are a partial fulfilment of a contract covering other goods then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of goods was recognised when the customer had accepted the goods and the related risks and rewards of ownership.

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

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

#### *(iii) Interest income*

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

#### *(iv) Compensation income*

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

## 1 Significant accounting policies (continued)

### (q) Revenue recognition (continued)

#### *(v) Subsidy income*

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

### (r) Translation of foreign currencies

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

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

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

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

### (s) Borrowing costs

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

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

## 1 Significant accounting policies (continued)

### (t) Related parties

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

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

(2) has significant influence over the Group; or

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

(ii) An entity is related to the Group if any of the following conditions applies:

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

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

### (u) Segment reporting

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

## 1 Significant accounting policies (continued)

### (u) Segment reporting (continued)

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

## 2 Accounting judgements and estimates

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

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

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

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

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

### (c) Write down of inventories

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

## 3 Revenue and segment reporting

### (a) Revenue

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

The Group's customer base includes one customer (2017: two customers), with whom transactions have exceeded 10% of the Group's revenues, for the year ended December 31, 2018. Revenues from sales to these customers, arose in the camera module segment, during the reporting period are set out below.

| | **2018** **$'000** | 2017 $'000 |
|---|---|---|
| Largest customer | **485,273** | 633,122 |
| Percentage of total revenue | **91%** | 85% |
| Second largest customer | **N/A*** | 83,086 |
| Percentage of total revenue | **N/A*** | 11% |

* Revenue from this customer was less than 10% of the Group's total revenue for the year ended December 31, 2018.

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

### (b) Segment reporting

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

— Camera module: this segment is involved in the design, development, manufacture and sale of camera modules for mobile devices and home appliances.

— Optical components: this segment is involved in the design, development, manufacture and sale of optical components for optical disk drivers.

## 3 Revenue and segment reporting (continued)

### (b) Segment reporting (continued)

#### *(i) Segment results*

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended December 31, 2018 and 2017 is set out below.

| | Camera module | |
|---|---|---|
| | **2018** | 2017 |
| | **$'000** | $'000 |
| Revenue from external customers | **533,236** | 735,605 |
| Reportable segment revenue | **533,236** | 735,605 |
| Segment profit | **18,517** | 33,632 |
| Bank interest income | **2,205** | 850 |
| Finance costs | **(187)** | (724) |
| Depreciation and amortisation | **(23,269)** | (21,819) |
| Additions to non-current segment assets | **16,228** | 18,784 |

## 3 Revenue and segment reporting (continued)

### (b) Segment reporting (continued)

#### *(i)* ***Segment results*** (continued)

| | Optical components | |
|---|---|---|
| | **2018** | 2017 |
| | **$'000** | $'000 |
| Revenue from external customers | **2,626** | 5,129 |
| Reportable segment revenue | **2,626** | 5,129 |
| Segment loss | **(3,410)** | (2,180) |
| Bank interest income | **12** | 5 |
| Finance costs | **(1)** | (5) |
| Depreciation and amortisation | **(955)** | (930) |
| Additions to non-current segment assets | **245** | 90 |

| | Total | |
|---|---|---|
| | **2018** | 2017 |
| | **$'000** | $'000 |
| Revenue from external customers | **535,862** | 740,734 |
| Reportable segment revenue | **535,862** | 740,734 |
| Segment profit | **15,107** | 31,452 |
| Bank interest income | **2,217** | 855 |
| Finance costs | **(188)** | (729) |
| Depreciation and amortisation | **(24,224)** | (22,749) |
| Additions to non-current segment assets | **16,473** | 18,874 |

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

| | **2018** | 2017 |
|---|---|---|
| | **$'000** | $'000 |
| **Revenue** | | |
| Reportable segment revenue and consolidated revenue | **535,862** | 740,734 |
| **Profit** | | |
| Reportable segment profit | **15,107** | 31,452 |
| Unallocated head office and corporate expenses | **(976)** | (1,097) |
| Consolidated profit before taxation | **14,131** | 30,355 |

## 3 Revenue and segment reporting (continued)

### (b) Segment reporting (continued)

#### *(iii) Geographic information*

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

| | Revenue from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | **2018 $'000** | 2017 $'000 | **2018 $'000** | 2017 $'000 |
| The People's Republic of China ("PRC") (including Hong Kong) | **512,800** | 688,665 | **111,380** | 128,454 |
| The Republic of Korea ("Korea") | **4,167** | 34,793 | **1,304** | 968 |
| Others | **18,895** | 17,276 | **—** | — |
| | **535,862** | 740,734 | **112,684** | 129,422 |

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

| | | **2018 $'000** | 2017 $'000 |
|---|---|---|---|
| **(a)** | **Other revenue** | | |
| | Bank interest income | **2,217** | 855 |
| | Rental income | **113** | 158 |
| | Government subsidy | **146** | 643 |
| | Others | **273** | 1,312 |
| | | **2,749** | 2,968 |
| **(b)** | **Other net income/(loss)** | | |
| | Net loss on disposal of plant and equipment | **(1,960)** | (2,491) |
| | Net foreign exchange gain/(loss) | **3,476** | (1,722) |
| | Others | **(489)** | 562 |
| | | **1,027** | (3,651) |

## 5 Profit before taxation

Profit before taxation is arrived at after charging:

| | | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|---|
| **(a)** | **Finance costs** | | |
| | Interest on bank borrowings | **188** | 729 |
| **(b)** | **Staff costs# *** | | |
| | Contributions to defined contribution retirement plan | **3,290** | 4,156 |
| | Expenses recognised in respect of defined benefit retirement plans (note 19(a)(v)) | **233** | 188 |
| | Equity settled share-based payment expenses (note 20) | **14** | 317 |
| | Salaries, wages and other benefits | **42,452** | 50,793 |
| | | **45,989** | 55,454 |

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

| | | 2018<br>$'000 | 2017<br>(Note)<br>$'000 |
|---|---|---|---|
| **(c)** | **Other items** | | |
| | Amortisation (note 12) | **1,086** | 910 |
| | Depreciation# (note 11) | **23,138** | 21,839 |
| | (Reversal of impairment loss)/impairment loss of trade receivables (note 23(a)) | **(9)** | 104 |
| | Auditors' remuneration | **356** | 357 |
| | Operating lease charges: minimum lease payments in respect of property rentals# | **3,647** | 3,675 |
| | Research and development costs other than depreciation and amortisation* | **17,215** | 15,725 |
| | Cost of inventories# (note 14(b)) | **483,567** | 666,507 |

Note: The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

# Cost of inventories includes $45,252,000 (2017: $50,900,000) relating to staff costs, depreciation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

* Research and development costs other than depreciation and amortisation includes $9,496,000 (2017: $10,998,000) relating to staff costs, which amounts are also included in the respective total amounts disclosed separately in note 5(b).

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 6 Income tax in the consolidated statement of profit or loss

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

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| **Current tax — Hong Kong Profits Tax** | | |
| Provision for the year | — | 380 |
| Over-provision in respect of prior years | (6) | (3) |
| | (6) | 377 |
| **Current tax — Overseas** | | |
| Provision for the year | 1,220 | 3,505 |
| Over-provision in respect of prior years | (211) | (432) |
| | 1,009 | 3,073 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (778) | (714) |
| | 225 | 2,736 |

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

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the "Ordinance"). Under the two-tiered profits tax rate regime, the first HK$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The Ordinance is effective from the year of assessment 2018-2019.

Accordingly, the provision for Hong Kong Profits Tax for the year ended December 31, 2018 is calculated in accordance with the two-tiered profits tax rate regime (2017: a single tax rate of 16.5% was applied). No provision for Hong Kong Profits Tax for 2018 has been made as the entities sustained losses for taxation purposes.

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

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

## 6 Income tax in the consolidated statement of profit or loss (continued)

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Profit before taxation | **14,131** | 30,355 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned | **1,767** | 4,168 |
| Tax effect of non-deductible expenses | **129** | 366 |
| Tax effect of non-taxable income | **(63)** | (309) |
| Effect of research and development bonus deduction | **(1,840)** | (1,108) |
| Over-provision in prior years | **(217)** | (435) |
| Tax effect of unused tax losses not recognised | **464** | — |
| Others | **(15)** | 54 |
| Actual tax expense | **225** | 2,736 |

## 7 Directors' emoluments

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

| | Directors' fees $'000 | Discretionary bonuses $'000 | Salaries, allowances and benefits in kind $'000 | Retirement scheme contributions $'000 | Sub-total $'000 | Share-based payments (note 2) $'000 | 2018 Total $'000 |
|---|---|---|---|---|---|---|---|
| **Chairman** | | | | | | | |
| Seong Seokhoon | – | 47 | 153 | – | 200 | – | 200 |
| **Executive directors** | | | | | | | |
| Lee Dong Goo | – | 88 | 147 | – | 235 | – | 235 |
| **Independent non-executive directors** | | | | | | | |
| Kim Chan Su | – | – | 30 | – | 30 | – | 30 |
| Song Si Young | – | – | 30 | – | 30 | – | 30 |
| Jung Jong Chae (appointed on December 13, 2018) | – | – | 1 | – | 1 | – | 1 |
| Andrew Look (resigned on December 13, 2018) | – | – | 26 | – | 26 | – | 26 |
| | – | 135 | 387 | – | 522 | – | 522 |

## 7 Directors' emoluments (continued)

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

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

Notes:

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

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

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

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

## 8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2017: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2017: two) individuals are as follows:

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Salaries and other emoluments | **602** | 410 |
| Contributions to retirement benefit scheme | **63** | 59 |
| | **665** | 469 |

The emoluments of the three (2017: two) individuals with the highest emoluments are within the following bands:

| | **2018 Number of individuals** | 2017 Number of individuals |
|---|---|---|
| HK$1,000,001 (equivalent to $129,000) to HK$1,500,000 (equivalent to $193,000) | **1** | 1 |
| HK$2,000,001 (equivalent to $258,000) to HK$2,500,000 (equivalent to $322,000) | **2** | 1 |

## 9 Other comprehensive income

### Tax effects relating to each component of other comprehensive income

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Before tax amount $'000** | **Tax expense $'000** | **Net-of-tax amount $'000** | Before tax amount $'000 | Tax benefit $'000 | Net-of-tax amount $'000 |
| Exchange differences on translation of financial statements | **(15,377)** | **—** | **(15,377)** | 18,551 | — | 18,551 |
| Remeasurement of net defined benefit liability | **(112)** | **25** | **(87)** | 44 | (10) | 34 |
| Other comprehensive income | **(15,489)** | **25** | **(15,464)** | 18,595 | (10) | 18,585 |

## 10 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $13,906,000 (2017: $27,619,000) and 831,519,000 ordinary shares (2017: 831,519,000 shares) in issue during the year.

### (b) Diluted earnings per share

There were no dilutive potential ordinary shares outstanding during the years ended December 31, 2018 and 2017. Accordingly, the diluted earnings per share is the same as basic earnings per share.

## 11 Property, plant and equipment

### Reconciliation of carrying amount

| | Leasehold improvements $'000 | Plant and machinery $'000 | Equipment, furniture and fixtures $'000 | Motor vehicles $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | |
| At January 1, 2017 | 42,967 | 121,548 | 24,173 | 459 | 38 | 189,185 |
| Exchange adjustments | 2,639 | 6,954 | 1,583 | 25 | 4 | 11,205 |
| Additions | 441 | 11,180 | 3,859 | 127 | 193 | 15,800 |
| Disposals | – | (6,734) | (1,554) | (195) | – | (8,483) |
| Transfers | – | 160 | – | – | (160) | – |
| At December 31, 2017 and January 1, 2018 | **46,047** | **133,108** | **28,061** | **416** | **75** | **207,707** |
| Exchange adjustments | **(2,182)** | **(7,068)** | **(1,332)** | **(17)** | **(1)** | **(10,600)** |
| Additions | **534** | **10,469** | **3,517** | **274** | **323** | **15,117** |
| Disposals | **(1,215)** | **(8,697)** | **(3,447)** | **(59)** | **–** | **(13,418)** |
| Transfers | **–** | **392** | **–** | **–** | **(392)** | **–** |
| At December 31, 2018 | **43,184** | **128,204** | **26,799** | **614** | **5** | **198,806** |

## 11 Property, plant and equipment (continued)

### Reconciliation of carrying amount (continued)

| | Leasehold improvements $'000 | Plant and machinery $'000 | Equipment, furniture and fixtures $'000 | Motor vehicles $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Accumulated depreciation:** | | | | | | |
| At January 1, 2017 | 8,553 | 44,763 | 12,148 | 405 | – | 65,869 |
| Exchange adjustments | 594 | 3,155 | 849 | 20 | – | 4,618 |
| Charge for the year | 2,222 | 15,335 | 4,220 | 62 | – | 21,839 |
| Written back on disposals | – | (4,334) | (1,433) | (195) | – | (5,962) |
| At December 31, 2017 and January 1, 2018 | 11,369 | 58,919 | 15,784 | 292 | – | 86,364 |
| Exchange adjustments | (606) | (3,107) | (820) | (13) | – | (4,546) |
| Charge for the year | 2,302 | 16,346 | 4,360 | 130 | – | 23,138 |
| Written back on disposals | (671) | (8,267) | (2,318) | (62) | – | (11,318) |
| At December 31, 2018 | 12,394 | 63,891 | 17,006 | 347 | – | 93,638 |
| **Net book value:** | | | | | | |
| At December 31, 2017 | 34,678 | 74,189 | 12,277 | 124 | 75 | 121,343 |
| At December 31, 2018 | 30,790 | 64,313 | 9,793 | 267 | 5 | 105,168 |

A customer has provided machinery to the Group for production of goods to that customer. The original acquisition costs of machinery borne by the customer amounted to $116,011,000 (2017: $116,174,000) and was not recognised as the Group's property, plant and equipment. There is no rental charge for the machinery and the management consider that the arrangement has been taken into account in determining sales prices with the customer.

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 12 Intangible assets

| | Development costs $'000 | Software $'000 | Club membership $'000 | Total $'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At January 1, 2017 | 71 | 6,815 | — | 6,886 |
| Exchange adjustments | 9 | 357 | — | 366 |
| Additions | — | 3,074 | — | 3,074 |
| At December 31, 2017 and January 1, 2018 | 80 | 10,246 | — | 10,326 |
| Exchange adjustments | (3) | (898) | (3) | (904) |
| Additions | — | 1,169 | 187 | 1,356 |
| At December 31, 2018 | **77** | **10,517** | **184** | **10,778** |
| **Accumulated amortisation:** | | | | |
| At January 1, 2017 | 71 | 1,224 | — | 1,295 |
| Exchange adjustments | 9 | 33 | — | 42 |
| Charge for the year | — | 910 | — | 910 |
| At December 31, 2017 and January 1, 2018 | **80** | **2,167** | **—** | **2,247** |
| Exchange adjustments | **(3)** | **(68)** | **—** | **(71)** |
| Charge for the year | **—** | **1,086** | **—** | **1,086** |
| At December 31, 2018 | 77 | 3,185 | — | 3,262 |
| **Net book value:** | | | | |
| At December 31, 2018 | — | 7,332 | 184 | 7,516 |
| At December 31, 2017 | **—** | **8,079** | **—** | **8,079** |

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

## 13 Investments in subsidiaries

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

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| Name of company | Place of incorporation/ registration and operation | Particulars of issued and paid up capital | Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
| Cowell Optic Electronics Limited | Hong Kong | 100 shares | 100% | 100% | — | Trading of camera module and optical products |
| Dongguan Cowell Optic Electronics Co., Ltd. ("Cowell DG")(*) | PRC | $283,831,900 | 100% | — | 100% | Manufacture of camera module and optical products |
| Cowell Electronics Co., Ltd | Korea | KRW1,934,540,000 | 100% | 100% | — | Trading of camera module and optical products |

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

## 14 Inventories

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Raw materials | **11,324** | 19,402 |
| Work in progress | **8,297** | 27,159 |
| Finished goods | **47,045** | 60,805 |
| | **66,666** | 107,366 |

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Carrying amount of inventories sold | **483,036** | 667,038 |
| Write-down of inventories | **531** | 31 |
| Reversal of write-down of inventories | **—** | (562) |
| | **483,567** | 666,507 |

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

## 15 Trade and other receivables

| | December 31, 2018 $'000 | January 1, 2018 $'000 | December 31, 2017 $'000 |
|---|---|---|---|
| Trade receivables, net of loss allowance (Note) | 56,971 | 118,205 | 118,319 |
| Other receivables and prepayments | 3,837 | 21,585 | 21,585 |
| | 60,808 | 139,790 | 139,904 |

Note: Under the adoption of IFRS 9, an opening adjustment as at January 1, 2018 was made to recognise additional ECLs on trade debtors (see note 1(c)(i)).

All of the trade and other receivables are expected to be recovered or recognised as expense within one year. At 31 December 2017, certain of the trade receivables were pledged to banks to secure banking facilities granted to the Group (note 18).

### (a) Ageing analysis

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

| | **2018 $'000** | 2017 $'000 |
|---|---|---|
| Within 1 month | **31,926** | 78,606 |
| Over 1 to 2 months | **22,956** | 38,630 |
| Over 2 to 3 months | **1,992** | 224 |
| Over 3 months | **97** | 859 |
| | **56,971** | 118,319 |

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

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

## 16 Cash and cash equivalents and pledged deposits

### (a) Pledged deposits

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

## 16 Cash and cash equivalents and pledged deposits (continued)

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Bank deposits within three months to maturity when placed | **100,935** | 31,286 |
| Cash at bank and on hand | **11,369** | 62,651 |
| Cash and cash equivalents in the consolidated cash flow statement | **112,304** | 93,937 |
| Bank deposits with more than three months to maturity when placed | **20,757** | 21,409 |

As at December 31, 2017 included in the above were $27,199,000, which are placed at banks which have general security over the bank accounts with them for banking facilities granted to the Group. No general security over the bank accounts are placed as at December 31, 2018.

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

| | Note | 2018 $'000 | 2017 (Note) $'000 |
|---|---|---|---|
| Profit before taxation | | **14,131** | 30,355 |
| Adjustments for: | | | |
| Interest income | *4(a)* | **(2,217)** | (855) |
| Net loss on disposal of plant and equipment | *4(b)* | **1,960** | 2,491 |
| Finance costs | *5(a)* | **188** | 729 |
| Equity settled share-based payment expenses | *5(b)* | **14** | 317 |
| Amortisation | *5(c)* | **1,086** | 910 |
| Depreciation | *5(c)* | **23,138** | 21,839 |
| Foreign exchange (gain)/loss | | **(7,756)** | 11,420 |
| Changes in working capital: | | | |
| Decrease/(increase) in inventories | | **40,700** | (47,340) |
| Decrease in trade and other receivables | | **80,051** | 91,182 |
| Decrease in trade and other payables | | **(63,769)** | (50,741) |
| (Decrease)/increase in defined benefit obligations | | **(173)** | 91 |
| Cash generated from operations | | **87,353** | 60,398 |

Note: The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

## 16 Cash and cash equivalents and pledged deposits (continued)

### (d) Reconciliation of liabilities arising from financing activities

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

| | Bank loans | |
|---|---|---|
| | **2018** | 2017 |
| | **$'000** | $'000 |
| **At January 1** | **47,114** | 89,249 |
| **Changes from financing cash flows:** | | |
| Proceeds from bank loans | **269,208** | 585,466 |
| Repayment of bank loans | **(316,322)** | (627,601) |
| Interest paid | **(188)** | (729) |
| Total changes from financing cash flows | **(47,302)** | (42,864) |
| **Other changes:** | | |
| Interest expenses (note 5(a)) | **188** | 729 |
| **At December 31** | **–** | 47,114 |

## 17 Trade and other payables

| | **2018** | 2017 |
|---|---|---|
| | **$'000** | $'000 |
| Trade payables | **46,184** | 107,267 |
| Accrued charges and other payables | **7,999** | 10,685 |
| | **54,183** | 117,952 |

## 17 Trade and other payables (continued)

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

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

| | **2018** **$'000** | 2017 $'000 |
|---|---|---|
| Within 1 month | **25,311** | 57,437 |
| Over 1 to 3 months | **20,844** | 49,810 |
| Over 3 to 6 months | **29** | 20 |
| | **46,184** | 107,267 |

## 18 Bank loans

| | **2018** **$'000** | 2017 $'000 |
|---|---|---|
| Current — Within 1 year or on demand (secured) | **–** | 47,114 |

At December 31, 2017, the banking facilities of the Group were secured by trade receivables with the carrying amount of $70,556,000. Such banking facilities amounted to $70,000,000. The facilities were utilised to the extent of $47,114,000. Certain bank loans were also secured by corporate guarantee given by the Company.

## 19 Employees retirement schemes

### (a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan for Korean employees working in Korea which covers 1.0% (2017: 0.8%) of the Group's employees. The plan is administered by a trustee, who is independent, with its assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The independent actuarial valuation of the plan at December 31, 2018 was prepared by certified insurance actuaries of Dlog Actuarial Consulting, who are registered with the Financial Services Commission, using the projected unit cost method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan are 83% (2017: 74%) covered by the plan assets held by the trustees at December 31, 2018.

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

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

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Present value of wholly or partly funded by obligation | 937 | 855 |
| Fair value of plan assets | (773) | (630) |
| | 164 | 225 |

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay $30,000 in contributions to the defined benefit retirement plan in 2019.

***(ii) Plan assets***

As at December 31, 2017 and 2018, the Group's liability under this plan is covered by deposits placed with several banks. There is no plan asset invested in the Company's own financial instruments or any property occupied or other assets used by the Group.

## 19 Employees retirement schemes (continued)

### (a) Defined benefit retirement plan (continued)

#### *(iii) Movements in the present value of the defined benefit obligation*

| | **2018** **$'000** | 2017 $'000 |
|---|---|---|
| At January 1 | **855** | 691 |
| Remeasurements: | | |
| — Actuarial losses arising from experience | **124** | 10 |
| — Actuarial gains arising from changes in financial assumptions | **(22)** | (64) |
| | **102** | (54) |
| Benefits paid by the plan | **(235)** | (76) |
| Current service cost | **226** | 180 |
| Interest cost | **25** | 21 |
| Exchange difference | **(36)** | 93 |
| At December 31 | **937** | 855 |

The weighted average duration of the defined benefit obligation is 7.3 years (2017: 11.6 years).

#### *(iv) Movements in plan assets*

| | **2018** **$'000** | 2017 $'000 |
|---|---|---|
| At January 1 | **630** | 513 |
| Group's contributions paid to the plan | **398** | 121 |
| Benefits paid by the plan | **(235)** | (76) |
| Interest income | **18** | 13 |
| Return on plan assets, excluding interest income | **(10)** | (10) |
| Exchange difference | **(28)** | 69 |
| At December 31 | **773** | 630 |

## 19 Employees retirement schemes (continued)

### (a) Defined benefit retirement plan (continued)

***(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:***

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Current service cost | 226 | 180 |
| Net interest on net defined benefit liability | 7 | 8 |
| Total amount recognised in profit or loss | 233 | 188 |
| Actuarial losses/(gains) | 102 | (54) |
| Return on plan assets, excluding interest income | 10 | 10 |
| Total amounts recognised in other comprehensive income | 112 | (44) |
| Total defined benefits costs | 345 | 144 |

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

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

| | 2018 | 2017 |
|---|---|---|
| Discount rate | 2.66% | 3.13% |
| Future salary increases | 4.10% | 4.50% |

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

| | Increase in 1% | | Decrease in 1% | |
|---|---|---|---|---|
| | 2018<br>$'000 | 2017<br>$'000 | 2018<br>$'000 | 2017<br>$'000 |
| Discount rate | (62) | (164) | 72 | 34 |
| Future salary increases | 71 | 20 | (62) | (154) |

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

(Expressed in United States dollars unless otherwise indicated)

## 19 Employees retirement schemes (continued)

### (b) Defined contribution retirement plan

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

Cowell DG participates in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to profit or loss when incurred. The Group is required to contribute 16.5% (2017: 16.5%) of employees' remuneration to these schemes during the year. Contributions to the scheme vest immediately.

## 20 Equity settled share-based transactions

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

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

| | Number of instruments | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Options granted to directors: | | | |
| — on October 30, 2015 | 4,000,000 | 2.17 years from the date of grant | 10 years |
| Options granted to employees: | | | |
| — on October 30, 2015 | 8,600,000 | 2.17 years from the date of grant | 10 years |
| — on April 21, 2016 | 1,500,000 | 0.86 year from the date of grant | 10 years |
| — on June 20, 2016 | 400,000 | 3 years from the date of grant | 10 years |
| — on June 20, 2017 | 400,000 | 3 years from the date of grant | 10 years |
| — on April 19, 2018 | 2,000,000 | 2 years from the date of grant | 10 years |
| — on May 24, 2018 | 1,000,000 | 1.95 years from the date of grant | 10 years |
| Total share options granted | 17,900,000 | | |

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 20 Equity settled share-based transactions (continued)

### (b) The number and weighted average exercise prices of share options are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Weighted average exercise price | Number of options '000 | Weighted average exercise price | Number of options '000 |
| Outstanding at the beginning of the period | **HK$3.68** | **6,650** | HK$3.74 | 9,400 |
| Granted during the period | **HK$1.93** | **3,000** | HK$3.04 | 400 |
| Lapsed/cancelled during the period | **HK$3.09** | **(3,700)** | HK$3.68 | (3,150) |
| Outstanding at the end of the period | **HK$3.15** | **5,950** | HK$3.68 | 6,650 |
| Exercisable at the end of the period | **—** | **—** | — | — |

The options outstanding at December 31, 2018 had a weighted average exercise price of $0.41 (equivalents to HK$3.15) (2017: $0.47 (equivalents to HK$3.68)) and a weighted average remaining contractual life of 7.67 years (2017: 7.96 years).

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

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

***Fair value of share options and assumptions***

| | 2018 | 2017 |
|---|---|---|
| Fair value at measurement date | **HK$0.82–HK$0.86** | HK$1.62 |
| Share price | **HK$1.81–HK$1.86** | HK$3.04 |
| Exercise price | **HK$1.89–HK$1.95** | HK$3.04 |
| Expected volatility (expressed as weighted average volatility used in the modelling under binomial option pricing model) | **71.08%** | 77.77% |
| Option life (expressed as weighted average life used in the modelling under binomial option pricing model) | **10 years** | 10 years |
| Expected dividends | **2.391%** | 3.037% |
| Risk-free interest rate (based on yields of Hong Kong government bonds and treasury bills) | **2.114%** | 1.325% |

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

## 21 Income tax in the consolidated statement of financial position

### (a) Current taxation in the consolidated statement of financial position represents:

| | 2018 '000 | 2017 '000 |
|---|---|---|
| Provision for Hong Kong Profits Tax for the year | — | 380 |
| Provisional Profits Tax paid | (357) | (1,346) |
| | (357) | (966) |
| Provision for tax outside Hong Kong | 3,337 | 5,104 |
| | 2,980 | 4,138 |
| **Representing:** | | |
| Tax recoverable | (711) | (1,221) |
| Tax payable | 3,691 | 5,359 |
| | 2,980 | 4,138 |

### (b) Deferred tax assets and liabilities recognised:

***Movement of each component of deferred tax assets and liabilities***

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

| | Depreciation allowances in excess of the related depreciation $'000 | Defined benefit retirement plan liability $'000 | Provisions $'000 | Unrealised profits $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| At January 1, 2017 | 250 | (151) | (61) | (267) | 110 | (119) |
| (Credited)/charged to profit or loss (note 6(a)) | (664) | (26) | (7) | (34) | 17 | (714) |
| Charged to reserves (note 9) | — | 10 | — | — | — | 10 |
| Exchange adjustments | — | (20) | (2) | — | 13 | (9) |
| At December 31, 2017 and January 1, 2018 | (414) | (187) | (70) | (301) | 140 | (832) |
| (Credited)/charged to profit or loss (note 6(a)) | (893) | (2) | (84) | 155 | 46 | (778) |
| Credited to reserves (note 9) | — | (25) | — | — | — | (25) |
| Exchange adjustments | — | 8 | 1 | — | (6) | 3 |
| **At December 31, 2018** | **(1,307)** | **(206)** | **(153)** | **(146)** | **180** | **(1,632)** |

## 21 Income tax in the consolidated statement of financial position (continued)

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $2,809,000 (2017: $Nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

### (d) Deferred tax liabilities not recognised

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

As at December 31, 2018, temporary differences relating to the undistributed profits of the Group's PRC subsidiary amounted to $105,630,000 (2017: $101,820,000). Deferred tax liabilities of $5,282,000 (2017: $5,091,000) have not been recognised in respect of these undistributed profits as the Company controls the dividend policy of the subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

## 22 Capital, reserves and dividends

### (a) Movements in components of equity

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

***Company***

| | Note | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Capital redemption reserve $'000 | Other reserve $'000 | (Accumulated losses)/ retained profits $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **At January 1, 2017** | | 3,326 | 66,398 | 3,448 | 7 | 707 | (25,791) | 48,095 |
| **Changes in equity for 2017:** | | | | | | | | |
| Profit for the year and total comprehensive income | | – | – | – | – | – | 32,008 | 32,008 |
| Dividends approved in respect of the previous year | | – | (8,548) | – | – | – | – | (8,548) |
| Equity settled share-based transactions | | – | – | 317 | – | – | – | 317 |
| Dividends declared in respect of the current year | | – | – | – | – | – | (1,840) | (1,840) |
| **At December 31, 2017 and January 1, 2018** | 27 | **3,326** | **57,850** | **3,765** | **7** | **707** | **4,377** | **70,032** |
| **Changes in equity for 2018:** | | | | | | | | |
| Profit for the year and total comprehensive income | | **–** | **–** | **–** | **–** | **–** | **5,367** | **5,367** |
| Dividends approved in respect of the previous year | | **–** | **–** | **–** | **–** | **–** | **(5,524)** | **(5,524)** |
| Equity settled share-based transactions | | **–** | **–** | **14** | **–** | **–** | **–** | **14** |
| Share options lapsed | | **–** | **–** | **(530)** | **–** | **–** | **530** | **–** |
| **At December 31, 2018** | 27 | **3,326** | **57,850** | **3,249** | **7** | **707** | **4,750** | **69,889** |

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(Expressed in United States dollars unless otherwise indicated)

## 22 Capital, reserves and dividends (continued)

### (b) Dividends

#### *(i) Dividends payable to equity shareholders of the Company attributable to the year*

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| No interim dividend declared and paid during the year (2017: HK1.7179 cents per ordinary share) | – | 1,840 |
| Final dividend proposed after the end of the reporting period of HK11.1987 cents per ordinary share (2017: HK5.1553 cents per ordinary share) | 12,000 | 5,524 |
| | 12,000 | 7,364 |

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

#### *(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.*

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK5.1553 cents per share (2017: HK7.977 cents per share) | 5,524 | 8,548 |

### (c) Share capital

***Authorised and issued share capital***

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of shares '000 | Amount $'000 | Number of shares '000 | Amount $'000 |
| **Authorised:** | | | | |
| Ordinary shares of $0.004 each | 10,000,000 | 40,000 | 10,000,000 | 40,000 |
| **Ordinary shares, issued and fully paid:** | | | | |
| At January 1 and December 31 | 831,519 | 3,326 | 831,519 | 3,326 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 22 Capital, reserves and dividends (continued)

### (d) Nature and purpose of reserves

#### *(i) Share premium and capital redemption reserve*

The application of the share premium and the capital redemption reserve of the Group and the Company is governed by the Companies Law of the Cayman Islands.

#### *(ii) Capital reserve*

The capital reserve comprises the following:

— The portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(n)(iii); and

— The contribution from one of the substantial shareholders of $2,040,000 to compensate part of the listing expenses incurred in 2015.

#### *(iii) Other reserve*

The Company's other reserve represents the fair value of the estimated number of unexercised share options granted to directors and employees of the Group in 2010. The share options were cancelled without any exercise in 2012.

The Group's other reserve comprises the Company's other reserve and the difference between the consideration paid by the Company to acquire non-controlling interests in Cowell Electronics Co., Ltd. and its carrying amount on the date of acquisition in 2012.

#### *(iv) General reserve fund*

According to the PRC laws applicable to wholly-owned foreign investment enterprises, the PRC subsidiary of the Group is required to set up a general reserve fund and appropriate at least 10% of their annual net profits after taxation, as determined under PRC accounting regulations, to the general reserve fund until the balance of the fund equals to 50% of the respective enterprise's authorised capital. This fund can be used to make good losses and to convert into paid-up capital.

#### *(v) Exchange reserve*

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than United States dollars. The reserve is dealt with in accordance with the accounting policies set out in note 1(r).

## 22 Capital, reserves and dividends (continued)

### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt plus unaccrued proposed dividend as total debt less cash and cash equivalents, bank deposits and pledged deposits.

The Group's strategy was to maintain a relatively low net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Bank loans (note 18) | – | 47,114 |
| Add: Proposed dividend | – | 5,524 |
| Less: Cash and cash equivalents | (112,304) | (93,937) |
| Bank deposits | (20,757) | (21,409) |
| Pledged deposits | (3,231) | (3,427) |
| Adjusted net cash | (136,292) | (66,135) |
| Total equity | 326,314 | 333,496 |
| Less: Proposed dividends | – | (5,524) |
| Adjusted capital | 326,314 | 327,972 |
| Adjusted net debt-to-capital ratio | N/A | N/A |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 23 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks for which the Group considers to have low credit risk.

***Trade receivables***

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 87.4% (2017: 87.8%) of the total trade receivables was due from the Group's largest customer and 88.0% (2017: 99.9%) of trade receivables were due from the Group's five largest customers.

In respect of trade and other receivables, individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. In respect of deposits with banks, the Group only places deposits with major financial institutions which the Group's management believes are of high credit rating.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates significantly different loss patterns for different business lines, the loss allowance based on past due status is further distinguished between the Group's different business lines.

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 23 Financial risk management and fair values (continued)

### (a) Credit risk (continued)

***Trade receivables*** (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables of the optical component segment as at December 31, 2018:

| | Expected loss rate % | Gross carrying amount $'000 | Loss allowance $'000 |
|---|---|---|---|
| Current (not past due) | 0% | 397 | — |
| 1-30 days past due | 0% | 19 | — |
| 31-90 days past due | 5% | 60 | (2) |
| 91-365 days past due | 20% | — | — |
| More than 365 days past due | 100% | 207 | (207) |
| | | 683 | (209) |

The Group's exposure to credit risk arising from trade receivables of the camera module segment is limited as the Group considers to have low credit risk for this segment.

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

## 23 Financial risk management and fair values (continued)

### (a) Credit risk (continued)

***Comparative information under IAS 39***

Prior to January 1, 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(h)(i) - policy applicable prior to January 1, 2018). At December 31, 2017, trade receivables of $208,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

| | 2017<br>$'000 |
|---|---|
| Neither past due nor impaired | 114,174 |
| Less than 1 month past due | 3,763 |
| 1–30 days past due | 191 |
| More than 3 months but less than 12 months past due | 87 |
| | 4,041 |
| | 118,215 |

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Balance at December 31 under IAS 39 | 104 | 289 |
| Impact on initial application of IFRS 9 (note 1(c)(i)) | 114 | — |
| Adjusted balance at January 1 | 218 | 289 |
| Amounts written off during the year | — | (289) |
| (Reversal of impairment losses)/impairment losses recognised during the year | (9) | 104 |
| Balance at December 31 | 209 | 104 |

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 23 Financial risk management and fair values (continued)

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to the approval by the parent company's board in respect of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

| | **2018** | |
|---|---|---|
| | **Contractual undiscounted cash outflow Within 1 year or on demand $'000** | **Carrying amount $'000** |
| Trade and other payables | **54,183** | **54,183** |

| | 2017 | |
|---|---|---|
| | Contractual undiscounted cash outflow Within 1 year or on demand $'000 | Carrying amount $'000 |
| Trade and other payables | 117,952 | 117,952 |
| Bank loans | 47,114 | 47,114 |
| | 165,066 | 165,066 |

## 23 Financial risk management and fair values (continued)

### (c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

#### *(i) Interest rate profile*

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Effective interest rate** | **Amount** | Effective interest rate | Amount |
| | **%** | **$'000** | % | $'000 |
| **Variable rate borrowings:** | | | | |
| Bank loans | – | – | 1.15 | 47,114 |

#### *(ii) Sensitivity analysis*

At December 31, 2017, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would had decreased/increased the Group's profit after taxation and retained profits by approximately $393,000. Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period.

### (d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HK$") and KRW.

As the HK$ is pegged to the US$, the Group does not expect any significant movements in the US$/HK$ exchange rate.

The Group's foreign operations do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the foreign operations for use within the respective operations.

# Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

## 23 Financial risk management and fair values (continued)

### (d) Currency risk (continued)

#### *(i) Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in US$, translated using spot rate at the year end date. Differences resulting from the translation of financial statements of operations with functional currency other than United States dollars into the Group's presentation currency are excluded.

| | Exposure to foreign currencies (expressed in US$) | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | |
| | **US$** | **KRW** | **HK$** | US$ | KRW | HK$ |
| | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 |
| Trade and other receivables | **57,863** | **—** | **—** | 120,039 | — | — |
| Bank deposits | **—** | **16,944** | **—** | — | 16,741 | — |
| Cash and cash equivalents | **67,930** | **—** | **155** | 46,698 | — | 6,072 |
| Trade and other payables | **(40,375)** | **—** | **—** | (108,708) | — | — |
| Bank loans | **—** | **—** | **—** | (47,114) | — | — |
| Net exposure arising from recognised assets and liabilities | **85,418** | **16,944** | **155** | 10,915 | 16,741 | 6,072 |

#### *(ii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HK$ and the US$ would be materially unaffected by any changes in movement in value of the US$ against other currencies.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on profit after tax and retained profits $'000** | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits $'000 |
| KRW | **5%** | **847** | 5% | 837 |
| | **(5)%** | **(847)** | (5)% | (837) |

## 23 Financial risk management and fair values (continued)

### (d) Currency risk (continued)

#### *(ii)* ***Sensitivity analysis*** (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated to the US$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

### (e) Fair values

The directors consider that the carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at the end of the reporting period.

## 24 Commitments

### (a) Capital commitments outstanding at December 31, 2018 not provided for in the financial statements were as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Contracted for | **61** | 896 |

### (b) At December 31, 2018, the total future minimum lease payments in respect of properties under non-cancellable operating leases are payable as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Within 1 year | **2,070** | 2,203 |
| After 1 year but within 5 years | **6,761** | 6,357 |
| After 5 years | **10,823** | 13,054 |
| | **19,654** | 21,614 |

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to eighteen years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

## 25 Contingent liabilities

### Financial guarantees issued

As at December 31, 2017, the Company had issued guarantees to bank to secure banking facilities granted by banks to certain subsidiaries amounting to $70,000,000. The Company did not recognise any deferred income in respect of the guarantees as the fair values could not be reliably measured and its transaction price was $Nil. Accordingly, the guarantees have not been accounted for as financial liabilities and measured at fair value. The directors did not consider it to be probable that a claim will be made against the Company under any of the guarantees issued. The maximum liability of the Company under the guarantees issued was the amount of banking facilities drawn down by the relevant subsidiaries amounting to $47,114,000. No financial guarantees are issued by the Company as at December 31, 2018.

## 26 Material related party transactions

### (a) Key management personnel remuneration

All members of key management personnel are the directors of the Company, and their remuneration is disclosed in note 7.

### (b) Consultancy fee payable to a substantial shareholder

In April 2016, the Group entered into a consulting agreement at the annual rate of US$380,000 in respect of consultancy service provided by a substantial shareholder. The amount of consultancy service fee incurred during the year ended December 31, 2018 is $380,000 (2017: $380,000). No amounts were outstanding as at December 31, 2018.

### (c) Applicability of the Listing Rules relating to connected transactions

The related party transaction in respect of note 26(b) above constitutes connected transactions as defined in Chapter 14A of the Listing Rules. However the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimis threshold under Rule 14A.76(1).

## 27 Company-level statement of financial position

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | **1,248** | 1,534 |
| Interests in subsidiaries | **24,858** | 19,231 |
| | **26,106** | 20,765 |
| **Current assets** | | |
| Other receivables | **169** | 515 |
| Bank deposits | **16,236** | 16,741 |
| Cash and cash equivalents | **27,562** | 32,199 |
| | **43,967** | 49,455 |
| **Current liabilities** | | |
| Other payables | **184** | 188 |
| **Net current assets** | **43,783** | 49,267 |
| **Total assets less current liabilities** | **69,889** | 70,032 |
| **NET ASSETS** | **69,889** | 70,032 |
| **CAPITAL AND RESERVES** | | |
| Share capital | **3,326** | 3,326 |
| Reserves | **66,563** | 66,706 |
| **TOTAL EQUITY** | **69,889** | 70,032 |

(Expressed in United States dollars unless otherwise indicated)

## 28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| IFRS 16, *Leases* | January 1, 2019 |
| IFRIC 23, *Uncertainty over income tax treatments* | January 1, 2019 |
| Annual Improvements to IFRSs 2015–2017 Cycle | January 1, 2019 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended June 30, 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

***IFRS 16, Leases***

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

## 28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2018 (continued)

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019 and will not restate the comparative information. As disclosed in note 24(b), at December 31, 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to $19,654,000 for properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of right-of-use assets and lease liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting. The expected changes in accounting policies as described above on initial adoption of IFRS 16 could have a material impact on the Group's financial statements from 2019 onwards.

# Five-Year Financial Summary

| | 2014 (in US$000) | 2015 (in US$000) | 2016 (in US$000) | 2017 (in US$000) | **2018 (in US$000)** |
|---|---|---|---|---|---|
| Revenue | 886,467 | 980,203 | 914,545 | 740,734 | **535,862** |
| Gross profit | 112,103 | 136,888 | 76,146 | 74,227 | **52,295** |
| Gross profit margin | 12.6% | 14.0% | 8.3% | 10.0% | **9.8%** |
| Operating profit | 70,686 | 78,643 | 35,416 | 31,113 | **14,327** |
| Operating margin | 8.0% | 8.0% | 3.8% | 4.2% | **2.7%** |
| Profit attributable to equity holders of the Company | 53,244 | 60,680 | 28,495 | 27,619 | **13,906** |
| Bank balance and cash | 82,224 | 79,056 | 85,435 | 93,937 | **112,304** |
| Borrowings | 91,939 | 40,822 | 89,249 | 47,114 | **—** |
| Total assets | 505,851 | 452,545 | 562,260 | 504,146 | **384,352** |
| Total liabilities | 313,419 | 166,890 | 264,897 | 170,650 | **58,038** |
| Total equity | 192,432 | 285,655 | 297,363 | 333,496 | **326,314** |

# Definitions

| | |
|---|---|
| "Articles of Association" | the articles of association of the Company (as amended from time to time), conditionally adopted on March 10, 2015 |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board" | the board of Directors |
| "Company" | Cowell e Holdings Inc., an exempted company incorporated in the Cayman Islands with limited liability on November 28, 2006 |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Cowell China" or "Dongguan Cowell" | Dongguan Cowell Optic Electronics Co., Ltd. (東莞高偉光學電子有限公司), a wholly foreign-owned enterprise incorporated in the PRC on February 5, 2002, which is a wholly owned subsidiary of Cowell Hong Kong |
| "Cowell Hong Kong" | Cowell Optic Electronics Limited (高偉光學電子有限公司), a limited liability company incorporated in Hong Kong on March 6, 2002, which is a wholly owned subsidiary of the Company |
| "Cowell Korea" | Cowell Electronics Co., Ltd. (formerly known as Cowell World Optic Co., Ltd. and World Optic Co., Ltd.), a stock corporation incorporated under the laws of Korea on January 29, 1997, which is a wholly owned subsidiary of the Company |
| "Director(s)" | the director(s) of the Company |
| "Global Offering" | has the meaning ascribed to it in the Prospectus |
| "Group" | the Company and its subsidiaries |
| "Hahn & Co. Eye" | Hahn & Company Eye Holdings Co., Ltd., a company incorporated in Korea on July 15, 2011 |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Listing Date" | March 31, 2015, on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time |
| "PRC" | People's Republic of China |

# Definitions

| | |
|---|---|
| "Prospectus" | the prospectus of the Company dated March 19, 2015 |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time |
| "Shareholder(s)" | holder(s) of Shares |
| "Shares" | ordinary share(s) of US$0.004 each in the share capital of the Company |
| "US$" | U.S. dollars, the lawful currency of the United States of America |