# 2018 Annual Report

Jolimark

# Jolimark Holdings Limited
# 映美控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2028

# Contents

# Corporate Information

## Directors

### Executive Directors

Mr. Au Pak Yin *(Chairman)*
Mr. Au Kwok Lun *(Chief Executive Officer)*
Mr. Ou Guo Liang

### Independent Non-Executive Directors

Mr. Lai Ming, Joseph
Mr. Meng Yan
Mr. Yeung Kwok Keung

## Registered Office

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

## Principal Place of Business in Hong Kong

Unit 01, 23A Floor
K. Wah Centre
191 Java Road
North Point
Hong Kong

## Company Secretary

Mr. Lai Sai Wo, Ricky

## Authorised Representatives

Mr. Au Kwok Lun
Mr. Lai Sai Wo, Ricky

## Audit Committee

Mr. Lai Ming, Joseph *(Chairman)*
Mr. Meng Yan
Mr. Yeung Kwok Keung

## Remuneration Committee

Mr. Yeung Kwok Keung *(Chairman)*
Mr. Meng Yan
Mr. Lai Ming, Joseph
Mr. Au Kwok Lun

## Nomination Committee

Mr. Lai Ming, Joseph *(Chairman)*
Mr. Meng Yan
Mr. Yeung Kwok Keung

## Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

## Legal Adviser to the Company as to Hong Kong Law

Sidley Austin
Level 39
Two International Finance Centre
8 Finance Street
Central
Hong Kong

## Hong Kong Branch Share Registrar and Transfer Office

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

## Principal Bankers

China Construction Bank
Agricultural Bank of China
Nanyang Commercial Bank
Xiamen International Bank
China Guangfa Bank

## Stock Code

2028

## Website

www.jolimark.com

# Chairman's Statement

*Dear Shareholder,*

In 2018, the Group recorded revenue of approximately RMB329,621,000, a decrease of approximately 12% from 2017. Loss attributable to shareholders of the Company during the year was approximately RMB28,274,000, compared to the profit attributable to shareholders of the Company of RMB13,853,000 in 2017. In 2018, weakened market demand for invoicing printers led to a decrease in revenue, and strengthening of promotion policy contributed to the decrease in our gross profit margin. Meanwhile, an increase in research and development contributions and provision for assets and investments caused the loss for the year of the Group.

The revenue generated from our printer business was approximately RMB326,591,000, representing approximately 99% of the Group's revenue and a decrease of approximately 11% from 2017. Revenue generated by the manufacture of other electronic products business was approximately RMB3,030,000.

Under our strategy of aligning printer services to cloud application, the Group laid a solid foundation for the operation of its 5 key business initiatives and sectors, namely printing equipment, cloud printing and cloud-based application, tax control solutions, new retail business, and video conference system and interactive education platform.

After a number of years of research, development and promotion for the Group's printing equipment and tax control products, we have become a key provider in the country and a well-known domestic brand name for tax control solutions and printing equipment products. In addition, the Group made the most significant achievements in its research for cloud printing technology, which forms two core technologies of our Jolimark cloud printing open platform and Jolimark cloud printing application solution. They are key entry-points for the Company to expand into new markets and enlarge our market share.

For the new retail business, our Kamo membership system has been fully upgraded into a SaaS-structured (Software-as-a-service) software product. It can provide more flexible, customised services for the customers, and attract participation from the employees, customers and agencies by transforming them into salespersons. The Kamo system launches solutions for different industries suitable for different use scenarios. Moreover, the new retail business also introduced a new product, our latte art printer product series, and will introduce in the first half of 2019 the new Jolimark color manicure machine.

Research and development for the interactive video conference system and the one-to-many interactive education platform were already completed. The system features an augmented reality system and has the capability to play relaxing images. Further, the new generation of Jolimark Android projector is capable of multi-party remote conference and real-time remote sharing of projected images. A projector constitutes an entire set of video conference system.

Looking forward to 2019, uncertainty looms in the domestic economy. The Company has had greater inputs in research and development for new products and new businesses, which led to greater uncertainty as well. The Company is entering a challenging and optimistic year. However, as our 5 key business sectors bring better business opportunities, I believe that the Company is on track for continuous and steady development, effectively meeting different kinds of challenges.

Finally, on behalf of the Board, I express my gratitude to our shareholders, the management team, all employees and customers for their support for the Group over the past year. It is with the diligence, energy and optimism of our employees that the Group looks forward for more long-term, satisfactory returns for our shareholders.

By order of the Board
**Au Pak Yin**
*Chairman*
Jolimark Holdings Limited

Hong Kong, 22, March 2019

# Management's Discussion and Analysis

## Business Review

### Printer Business

For the year ended 31 December 2018, the revenue of the Group derived from the printer business amounted to approximately RMB326,591,000, accounted for approximately 99% of the total revenue of the Group, and representing a decrease of approximately 11% as compared with 2017. The decrease in revenue was mainly attributable to a decrease in demand for invoicing printers in domestic market in 2018.

### Other Electronic Products Business

For the year ended 31 December 2018, the revenue of the Group derived from the other electronic products business amounted to approximately RMB3,030,000, accounted for approximately 1% of the total revenue of the Group.

## Future Business Outlook

Guided by the strategy of printers into the cloud-based ecology, five sectors of business initiatives and activities were engaged in 2018, namely printing equipment, cloud printing and cloud-based application, tax control solutions, new retail business, and video conference system and interactive education platform. These business initiatives laid a solid foundation for the Company's operation in 2019. Business outlook for the coming year is as follows:

### 1. Printing Equipment

After years of development, our printing equipment now comprises a comprehensive range of reliable products, with a large and stable user base. All our products are self-developed, and we have ownership of all of the intellectual property rights. The Company has mastered core technologies for the dot-matrix print head and inkjet head, supported by an industry chain which provides us with an economy of scale, cost advantage and brand influence. Main products of printing equipment include dot-matrix printers, inkjet printers, mini invoice printers and barcode printers, among others. In 2018, the new dot-matrix printer products include the high-speed horizontal feeding passport and invoice printer series. Mini invoice printers mainly include lottery ticket terminal printers, heat-sensitive barcode and label printers and POS-bundled heat-sensitive mini printers. Printing invoices, statements, bills and passbooks can be done with one single machine, which greatly enhanced the Company's competitiveness among other similar products. As new products are being launched into the market in synergy with projects under development, the Company is creating a solid foundation for competitiveness.

## 2. Cloud Printing and Cloud Printing Application Solutions

Cloud printing technology is the most significant result of the Company's recent research and development, and has already become two of our core technologies, Jolimark cloud-printing open platform and Jolimark cloud printing application solutions, which enable us to expand and enter new markets. In particular, Jolimark cloud-printing open platform utilizes open-access technological platform to provide safe, high-calibre, versatile, simple and convenient cloud printing technology, equipment and service, helping third-party developers to establish their cloud-printing capabilities with ease and efficiency. Currently, the platform supports cloud-printing products including heat-sensitive printers, barcode and label printers, dot-matrix mini printers, dot-matrix horizontal feeding printers and inkjet printers, among others. Supported network connections include Wi-Fi, Ethernet, 4G, Bluetooth and GPRS. Meanwhile, Jolimark cloud application store has many other applications for businesses to choose from to satisfy different office needs. For example, the shared standard working sheet can greatly reduce the time and cost for small- to middle-sized enterprises in making forms. Other solutions include e-conference, shared document cloud printers and counter service cloud printers.

## 3. Tax Control Solutions

The Company has been engaged in the research, development and promotion of tax control products and the provision of tax control solutions for customers for many years and has accumulated a wealth of experience in the field of tax control. As an important tax control solution and product provider in China, the Company follows the national tax control policy and develops corresponding tax control products promptly. In addition to conventional promotional campaigns, the marketing of our traditional tax control products are now actively driven by our unique, pioneering tax control solutions under the principle of "bringing out the old with the new, breaking through with new products". For example, our Wechat electronic invoice cloud printing solutions enables quick and easy printing of electronic invoices with scanning Wechat codes. Once launched, tax control service providers came to collaborate with the Company as there were almost no better alternatives available. We also promote our tax control products in a more systematic, effective way by linking our software to our hardware products. We also plan to develop an invoice reimbursement management system for business use which enables electronic invoice automated printing, invoice verification and preventing double reimbursement for the same invoice. From this we build up a strong, comprehensive tax control solution package that satisfies a whole array of requirements.

## 4. New Retail Business

As the core product of the Company's new retail business, our Kamo membership system has been upgraded into a SaaS (Software as a Service) structured software product after multiple generations and several years of market adaptation. It can provide personalised services for customers with greater flexibility, with a more comprehensive functional module management and platform-level authorisation system. A comprehensive online mall system is also in place which provides a variety of marketing activities and campaigns including viral marketing, group deals, flash sales, limited-time mob sales and pre-orders. In particular, the new retail fan viral marketing system is the most distinctive one. Based on viral sharing, it enables marketing through social interactions and broadcast and rewards participants including employees, customers and agents with Wechat red packets, turning everyone into a potential salesperson. On top of the basic version of Kamo, the Company also launched solutions suited for different industries according to different usages, targeting chiefly restaurant, beauty salons, hotels, retails and hybrid chain stores. The system also allows online payment and a mixture of coupons and membership points, as well as Wechat self-service electronic invoicing and printing. The Company also adopts the strategy of integrating software and hardware in the provision of solutions under the new retail business to enhance its competitiveness. In 2018, we made an important addition to our new retail business portfolio, our latte art printer series. It is equipped with an application that supports code-scanning latte art modes, making everything from image choice, effect treatment, text editing, printing configurations and the printing process under the customer's control. In addition, the Company will launch our new color manicure machine in the first half of 2019.

## 5. Video Conference System and Interactive Education Platform

As dispersed office becomes more widespread, a more effective and intuitive communication tool becomes necessary for brainstorming and business meetings, a trend which singles out interactive video conference systems as the most effective choice. As common sense goes, premium teachers are the most sought-after in the education sector, and an interactive education platform enabling multiple connections can multiply the effect achieved by premium teacher resources. It could also allow students from remote regions to benefit from quality education, and save time for students who would have to commute within the same city. The Company's interactive video conference system and one-to-many interactive education platform are established under these ideals. The system also incorporates augmented reality (AR) technology which allows one to add interesting, relaxing images to the video to replace the drab, monotonous background in the original video so as to enhance the meeting experience or make the teaching more entertaining. Moreover, our new generation of Jolimark Android projector supports wireless projection from smartphones or laptops, and has an in-built Jolimark conference software which can easily set up multi-party remote conferences and real-time remote sharing of projected images. It is an entire video conferencing system built into a single projector.

# Financial Review

## Results Summary

For the year ended 31 December 2018, the Group's turnover amounted to approximately RMB329,621,000, representing a decrease of approximately 12% as compared with last year. The loss attributable to shareholders of the Company amounted to approximately RMB28,274,000, as compared to a profit of RMB13,853,000 last year. The basic loss per share was approximately RMB0.045 (the basic earnings per share as at 31 December 2017: RMB0.021). The loss attributable to shareholders was mainly due to a decrease in sales revenue and gross profit margin, an increase in research and development contributions and provision for assets and investments in 2018.

## Analysis of Sales and Gross Profit

Compared with 2017, the consolidated revenue of the Group decreased by approximately 12%. Gross profit margin decreases from approximately 35% in 2017 to approximately 32%. The decrease in gross profit margin is mainly due to the strengthening of promotion policy.

## Capital Expenditure

For the year ended 31 December 2018, capital expenditure of the Group amounted to approximately RMB18,258,000, which was mainly used for the acquisition of production equipment, construction of new office building and order of product molds for products.

## Financial and Liquidity Position

As at 31 December 2018, the total assets of the Group amounted to approximately RMB429,598,000 (31 December 2017: RMB515,322,000), controlling shareholder's interests amounted to approximately RMB277,798,000 (31 December 2017: RMB344,305,000); non-controlling interests amounted to approximately RMB(119,000) (31 December 2017: RMB(455,000)); current liabilities amounted to approximately RMB119,901,000 (31 December 2017: RMB120,651,000), and the current ratio (the ratio of current assets to current liabilities) of the Group was approximately 2.28 (31 December 2017: 2.7). The decrease in current ratio was mainly attributable to a decrease in current assets amounted to approximately RMB48,325,000 in current year.

As at 31 December 2018, the cash and cash equivalents, restricted cash, time deposits and financial assets at fair value through profit or loss (excluding the put option amounted to RMB463,000) of the Group amounted to approximately RMB160,602,000 (31 December 2017: RMB249,521,000) in aggregate, whereas the bank loans of the Group amounted to approximately RMB81,543,000 (31 December 2017: RMB80,154,000). The Group was in a net cash position after deducting the loans.

As at 31 December 2018, the Group received outstanding bank acceptance bills from customers amounted to approximately RMB6,494,000 (31 December 2017: RMB16,682,000).

## Pledge of Assets

As of 31 December 2018, deposits with certain banks totaling RMB7,000,000 (31 December 2017: RMB57,960,000) were used as security for bank loans facilities, i.e. onshore guarantees for offshore loans. The relevant bank deposits will be released upon the settlement of relevant bank loans.

## Foreign Currency Risks

The Group mainly operates in Mainland China with most of the transactions denominated and settled in RMB. However, the Group is exposed to foreign exchange risks for assets and liabilities denominated in United States dollars ("US$"), Taiwanese dollars ("TWD"), Euro and Hong Kong dollars ("HK$") arising from importation of certain raw materials and machinery from overseas suppliers, sales of goods to overseas customers and borrowings that are denominated in foreign currencies. As at 31 December 2018, the Group had more monetary financial liabilities than financial assets outside the Mainland China.

The Group manages and monitors its foreign exchange risks by performing regular review of the Group's net foreign exchange exposures and mitigates the impact of exchange rate fluctuations by reducing the financial liabilities if needed.

## Acquisition and Disposal

In the first half of 2018, the Group acquired Hou Zhang Gui (猴掌櫃) SaaS Takeaway Ordering Business of Shenzhen Mingyang Information Technology Limited Company at a consideration of RMB1,433,000 through multiple agreements.

In 2018, Kong Yue Electronics & Information Industry (Xin Hui) Ltd., a subsidiary of the Group invested 4% shareholdings in 湖南承萌教育文化發展有限公司 with contractual price of investment agreement amounted to RMB2,000,000. 湖南承萌教育文化發展有限公司 engages in education management, arts training and provision of operating services. During the same year, Kong Yue Electronics & Information Industry (Xin Hui) Ltd. invested RMB1 million to 新余凱易教育投資合夥企業, to take equity interest of 19.96%. 新余凱易教育投資合夥企業 focuses on education investment.

Save as disclosed otherwise, the Group did not have any other material acquisitions or disposals during the year under review.

## Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2018 (31 December 2017: nil).

## Staff

As at 31 December 2018, the Group employed a total of 1,061 staffs (2017: 1,140 staffs). Apart from 32 employees employed in Hong Kong and overseas, the rest of the employees of the Group were based in mainland China. The Group determined its remuneration and bonus policies for all employees with reference to the business results and individual performance of the staff. In addition, fringe benefits, such as social security insurance, medical allowance and housing provident fund, were provided to ensure the competitiveness of the Group. In addition, the Group has adopted a share option scheme with the objective to reward and incentivize its employees.

## Final Dividend

The Board of directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2018 (Year ended 31 December 2017: RMB 0.019 per share).

## Closure of Register of Members

The annual general meeting of the Company will be held on Tuesday, 21 May 2019. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Thursday, 16 May 2019 to Tuesday, 21 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 15 May 2019.

## Audit committee

The audit committee of the Company (the "Audit Committee") comprises Mr. Lai Ming, Joseph as the chairman, Mr. Meng Yan and Mr. Yeung Kwok Keung. All of them are independent non-executive Directors. For the year ended 31 December 2018, the Audit Committee held two meetings to review the accounting standards and practices adopted by the Group and to discuss on matters regarding the internal control and financial reporting (including the interim and annual results before proposing them to the Board for approval) with the management and external auditor. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2018.

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

## Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 10 to the financial statements.

An analysis on sales and gross profit of the Group using financial key performance indicators for the year ended 31 December 2018 is set out in the section headed Management's Discussion and Analysis of this annual report.

## Results and Appropriations

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement on page 47.

No interim dividend for the six months ended 30 June 2018 was paid by the Company. At the Board meeting held on 22 March 2019, the Board did not recommend the payment of a final dividend (2017: final dividend of RMB0.019 per ordinary share) for the year ended 31 December 2018.

## Reserves

Movements in the reserves of the Group during the year under review are set out in Note 21 to the financial statements.

## Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 7 to the financial statements.

## Share Capital

Details of the movements in share capital of the Company are set out in Note 20 to the financial statements.

## Distributable Reserves

As at 31 December 2018, the Company's reserve available for cash distribution as computed in accordance with the Companies Law of the Cayman Islands (2013 Revision), amounted to approximately RMB7,280,000.

## Charitable Donations

Charitable donations made by the Group during the year amounted to HK$90,000.

## Pre-Emptive Rights

There is no provision regarding pre-emption rights under the Company's Article of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## Buy-back, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2018, the Company repurchased in aggregate 44,182,000 shares of the Company on the Stock Exchange for an aggregate consideration of about HK$35,563,130 (highest repurchase price was HK$1.20 per share, and the lowest repurchase price was HK$0.445 per share). All the repurchased shares were subsequently cancelled. The Directors are of the view that such repurchases have the effect of enhancing the earnings per share of the Group and would benefit the shareholders as a whole.

Save as disclosed above, neither the Company nor any of its subsidiaries bought back, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

## Major Risks and Uncertain Factors

The operations and results of the Group are subject to the effects of various factors, some are specific to the dot-matrix printer sector and some are external. The following are the major risks and uncertain factors identified by the Group:

### (a) Policy Risk

The sale of dot-matrix invoice printers is one of the principal businesses of the Group. The PRC State's taxation policies may affect the above-mentioned business of the Group, in particular, the decision of the implementation of the policy concerning further expanding the scope of the pilot program of issuance of special invoices by small-scale taxpayers by the State may increase the market demand for the above-mentioned printers. However, the details and effectiveness of such policy and implementation are uncertain to some extent.

The electronic invoicing (limited to regular value added tax invoice) currently under pilot testing of the State may reduce the market demand for dot-matrix printers. The materialization of electronic evidence accounting of electronic invoicing requires complementary policies and relevant technical preparation, and may need some time before extension to full utilization. In response to such risk, the Group developed cloud printing technologies with printing as its core technology and market starting point. The Company has launched or will launch the continuous paper feeding inkjet printers, inkjet printers in red and black colors, electronic invoice cloud printer and electronic invoice self-service cloud printing terminal which are more suitable for electronic invoice printing. The Company developed "Jolimark Invoicing Platform" to support multipoint invoicing for electronic invoices and cloud invoicing interfaces.

### (b) Macroeconomic Risk

The domestic macro-economy has been seizing down since 2015, which may lead to expenses tightening by the government or other sectors, and the demand in dot-matrix printers may decrease. In its future development plan, the Group has positioned itself as a cloud-based application service provider combining hardware and software. To this end, the Company will expand the application of printing devices, provide cloud printing application services and various tax control solutions, launch other new services, optimize product structures and marketing strategies and expand both domestic and overseas sales channels.

## (c) Risk of New Business

Some of the Group's businesses such as new retail business (including Kamo Cash and membership system), cloud printing application, video conference system and interactive education platform, POS all-in-one terminal and inkjet printers are new businesses or new products of the Group. Their successful launch or marketing will help the Company transform and upgrade, as well as open up new markets and win new customers. However, their development and prospects are affected by the development progress, technical difficulties and market factors which are subject to uncertainties.

## (d) Risk of Supply Chain

To guarantee that the products are of high quality, the Group procures part of the highly sophisticated parts or chips from overseas, (amongst others) the quality, delivery schedule and the production capacity of the manufacturers of the relevant parts and components may affect the product quality, production capacity and sales and the implementation of marketing strategies of the Group to a certain extent. The Group controls or reduces the supply chain risk that may exist by measures such as entering into quality guarantee agreement and procurement framework agreement with the suppliers, stocking buffer inventories, enhancing communications with suppliers as well as enhancing administration and control over the quality of the manufacturing system.

## (e) Risk of Competition

As online marketing becomes popular, together with the emergence of new small scale dot-matrix printer manufacturers, the competition of the dot-matrix printer sector which the Group operates has become more and more intensified and price competition among other competitors and other marketing measures may affect the gross profit and market share of the products of the Group to certain extent. Therefore, the Group is required to continuously improve the core technology of the products, develop new models suitable for industry sales, optimize suppliers resources, reasonably reduce procurement cost, enhance administration of the supply chain and product quality, increase investment in marketing activities, strengthen the administration of distribution channel and outlet terminals, increase industry-targeted marketing efforts, strengthen the cooperation with e-commerce platforms such as JD.com and WeChat Mall as well as strengthen the development of Tmall store and Jolimark WeChat shop, thereby expanding sales in various channels and enhancing core competitiveness continuously, so as to maintain profitability at reasonable level and expand market shares.

There may be other risks and uncertainties which are not known to the Group or which may not be material now but could turn out to be material in the future.

## Discussion on Environmental, Social and Governance Issues

### Important Relationship

#### (i) Employee

Adhering to its "people-oriented" philosophy, the Group places much emphasis on knowledge, talents and innovations, and regards human resources as one of its greatest assets; and aligns the development of the Group with the personal career development of all employees. The Group intends to continue to be an attractive employer which provides a broad development platform for employees.

We strive to motivate employees with a clear career development path and by offering desirable skills training opportunities and competitive remuneration system. We provide all-round orientation training, on-the-job training, and enhancement training, as well as adequate development opportunities for our employees. The training programmes cover practical skills, management skills, operation of management system, sales and production, customer service, quality control, exhibition planning, case analysis, standards and norms, work ethics and other industry related training.

We have established a trade union and a number of staff clubs, which allocate special funds on a monthly basis to provide a wide variety of leisure and cultural activities to our employees. Free medical check-ups are provided annually for all employees on a regular basis, while pre-job, on-the-job and post-job health examinations are arranged for staff in specific positions. We have appointed an employee representative and set up a suggestion box to understand and collect feedback from employees, and enhanced the conditions of areas which employees are concentrated such as the dormitory, canteen and commuter shuttle bus. We care for our employees in every detail with an aim to enhance their sense of belonging to the Group. We conduct an employee satisfaction survey annually, and take seriously their valuable feedback on how to improve the work environment, enhance efficiency, create a harmonious workplace and so on. Recently, employee satisfaction has increased year by year reaching 93.7 marks in 2018.

In addition, we offer competitive remuneration for our employees. At the end of each year, we give year-end bonus to and raise the salary of our employees based on the performance of our operations. We have also adopted a share option scheme and an award system and assessment system of outstanding staff and management personnel, to recognize and reward those employees who have contributed to the growth and development of the Group.

#### (ii) Supplier

The Group has established long-term close relationship with a number of reputable suppliers with reliable quality, and we do our best to ensure such suppliers comply with our commitments in respect of quality, environmental protection, low carbon operation, safety and ethical conducts. We select our suppliers carefully and require them to meet a number of assessment indicators, including track record, experience, financial strength, and reputation, the capability to produce high quality products, quality control effectiveness, environmental protection and safety requirements. On-site evaluations would be arranged as needed to verify if the suppliers meet our assessment standards. We also require our suppliers to comply with our anti-corruption policy. We are dedicated to maintaining a fair partnership which is mutually beneficial with our suppliers.

### (iii) Distributor

The Group sells its products to end users through third party distributors. We work closely with our distributors to raise the standard of our brand value and customer service, focusing particularly on reaching a mutually agreed approach to attracting and maintaining customers to promote sales growth.

We require distributors and sub-distributors to comply with our retail policy, including but not limited to a national standard retail price, unified store image, promotional activities, after-sale maintenance and so on.

### (iv) Customer

The Group strives to offer different types of computer peripherals with different specifications at competitive prices with excellent product quality and after-sale services. We regard customer needs as our first priority, and we seek to improve customer satisfaction. We also provide customized product design and technical support. We maintain a VIP database and communicate with customers via different channels, such us our website, after-sales service hotline, mail, marketing materials and social media. We also work with distributors to provide trainings for their major frontline sales personnel to offer quality and value-added services to our end users at the retail stores.

## Environmental Protection Policy

The Group focuses on the preservation of natural resources and strives to create an environmentally-friendly work environment. The Group is committed to reducing its impact on the environment through reducing electricity consumption, water consumption, paper consumption, promoting the recycling of packaging materials, office supplies and other materials, and designing and selling products which have passed the environmental labeling certification and energy saving certification.

Our environmental management system has been certified to the ISO14001 standard, and the impact of environmental factors during the whole process of production and sales is under control. All wastes are properly disposed of and hazardous wastes are delivered to qualified recyclers. Strict emission control is also implemented on exhaust gas and domestic wastewater. Every year, a qualified cooperative manufacturer is engaged as testing agency to test the exhaust gas in order to ensure to comply with discharge standards. We have also established and realized our environmental goals, indicators and management plans.

There is a large area of green space within the production facilities of the Group, which accounts for more than 40% of the total area. We also require our suppliers to strictly abide by the relevant environmental regulations and rules, and provide supervision and encouragement to them in the course of cooperation. We have obtained all the necessary permits and approvals from the relevant regulatory authorities in China.

## Compliance with Laws and Regulations

The operations of the Group are primarily conducted by subsidiaries of the Company in Mainland China, and the Company is listed on the Stock Exchange. Therefore, the establishment and operations of the Group are subject to relevant laws and regulations of Mainland China and Hong Kong.

We will gather update information on relevant laws and regulations regularly, which cover issues concerning our products, quality, business management, environment and safety, and undergo a compliance assessment to ensure full compliance.

For the year ended 31 December, 2018 and as at the date of this annual report, the Group has complied with all relevant laws and regulations in Mainland China and Hong Kong that have significant impact on the operations of the Group.

## Share Options

Pursuant to the share option scheme approved by a written resolution of all shareholders of the Company on 13 June 2005 (the "2005 Scheme"), the Company may grant to, amongst others, the Directors and employees of the Company and its subsidiaries, for the recognition of their contribution to the Group, options to subscribe for the Shares. According to the 2005 Scheme, the Board may, at its discretion, invite any eligible participants, including employees and directors, to take up options to subscribe for the Shares in the Company. The total number of Shares which may be issued upon the exercise of all options to be granted under the 2005 Scheme and any other scheme must not, in aggregate, exceed 10% of the number of Shares in issue as at the date dealings in the Shares first commence on the Stock Exchange unless further shareholders' approval had been obtained pursuant to the conditions set out in the 2005 Scheme. Subject to the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the total number of Shares that may be granted to a participant in any 12-month period must not exceed 1% of the issued share capital of the Company.

The offer for the grant of options ("Offer") must be taken up within 28 days from the date of offer, with a payment of HK$1.00 as consideration for the option. The exercise price of the share option will be determined at the higher of (i) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (iii) the nominal value of the Shares. The total number of shares available for issue should be 50 million which is equivalent to 10% of the shares in issue when the 2005 Scheme was adopted by the shareholders. The share options are exercisable at any time during a period of no more than 10 years from the date of Offer, subject to the terms and conditions of the 2005 Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the 2005 Scheme shall be valid and effective for a period of 10 years commencing on the date on which the 2005 Scheme becomes unconditional. The 2005 Scheme has been terminated on 18 May 2015.

In the annual general meeting of the Company held on 18 May 2015, as the 2005 Scheme was due to expire on 26 June 2015, the shareholders approved to terminate the 2005 Scheme and adopted a new share option scheme (the "2015 Scheme"). The adoption of the 2015 Scheme and the termination of the 2005 Scheme will not in any way affect the terms of the options already granted under the 2005 Scheme, which will continue to be valid and subject to the terms of the 2005 Scheme. The total number of shares available for issue in the 2015 Scheme should be 60,481,950 which is equivalent to 10% of the shares in issue when the 2015 Scheme was adopted by the shareholders. Since adoption, no options have been granted under the 2015 Scheme.

The following table discloses movements in the Company's share options during the year under audit:

| Name | Date of grant | Exercise price HK$ | Outstanding as at 1 January 2018 | Granted during the period | Exercised during the period | Forfeited during the period | Outstanding as at 31 December 2018 | Percentage of the issued share capital of the Company as at the date of this report | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| Employees | 10 December 2013 | 1.18 (Note 2 and 3) | 2,123,500 | – | – | – | 2,123,500 | 0.35% | 10 December 2014 to 10 December 2019 (Note 1) |
| Employees | 17 December 2014 | 1.70 (Note 4 and 5) | 17,755,000 | – | – | (2,425,000) | 15,330,000 | 2.50% | 17 December 2015 to 17 December 2020 (Note 1) |
| Employees | 15 May 2015 | 2.17 (Note 6 and 7) | 12,620,000 | – | – | (100,000) | 12,520,000 | 2.04% | 15 May 2016 to 15 May 2021 (Note 1) |
| Total | | | 32,498,500 | – | – | (2,525,000) | 29,973,500 | 4.89% | |

Notes:

1. The first 25% of the option can be exercisable at any time on and after the first anniversary of the date of grant. The next 25% of the option can be exercisable at any time commencing from the second anniversary of the date of grant. The third 25% of the option can be exercisable at any time commencing from the third anniversary of the date of grant. The remaining 25% of the option can be exercisable at any time commencing from the fourth anniversary of the date of grant.

2. The closing price immediately before the date of grant was HK$1.18.

3. The exercise price was determined by the Board and was fixed at HK$1.18 per share.

4. The closing price immediately before the date of grant was HK$1.72.

5. The exercise price was determined by the Board and was fixed at HK$1.70 per share.

6. The closing price immediately before the date of grant was HK$2.17.

7. The exercise price was determined by the Board and was fixed at HK$2.17 per share.

## Directors

As at the date of this annual report, the Directors are as follows:

### Executive Directors

Mr. Au Pak Yin *(Chairman)*
Mr. Au Kwok Lun *(Chief Executive Officer)*
Mr. Ou Guo Liang

### Independent Non-Executive Directors

Mr. Lai Ming, Joseph
Mr. Meng Yan
Mr. Yeung Kwok Keung

Pursuant to Article 108(a) of the Articles of Association, at each of the annual general meeting, one third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every 3 years. Mr. Au Pak Yin, Mr. Ou Guo Liang and Mr. Lai Ming, Joseph will hold office only until the coming annual general meeting of the Company to be held on Tuesday, 21 May 2019 (the "AGM"). Mr. Au Pak Yin and Mr. Ou Guo Liang, being eligible, will offer themselves for re-election at the AGM whilst Mr. Lai Ming, Joseph has indicated that he will not offer himself for re-election at the AGM.

## Indemnity and Insurance Provision

The Articles of Association of the Company provides that every Director shall be entitled to be indemnified out of assets of the Company against any liabilities, action, proceeding, claim, demand or expenses as a result of any act or failure to act in carrying out his functions.

The Company has also arranged appropriate directors and officers liability insurance in respect of legal action against Directors.

## Directors' Service Contracts

Mr. Yeung Kwok Keung and other Directors have renewed their service contracts with the Company for another term of 3 years commencing from 1 August 2017 and 13 June 2017, respectively. Save as above, none of the Directors had entered into a service contract with any member of the Group which does not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

## Directors' Interests in Contracts

Save as disclosed under the heading "Connected Transactions", no contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Director's Rights to Acquire Shares

Apart from the 2005 Scheme and the 2015 Scheme disclosed in the section headed "Share Options" of this annual report, at no time during the year under review was the Company, its holding company or any its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

## Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on page 22 to page 24.

## Employees and Remuneration Policy

### Retirement benefit plans

As stipulated by the rules and regulations in the PRC, the Group participates in the retirement benefit scheme operated by the relevant local government authorities. The Group is required to make contribution on behalf of its employees in the PRC in accordance with the relevant PRC regulations.

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute 13% of the minimum wage used for payment of basic pension insurance as agreed by local government to fund the retirement benefits of the employees.

In Hong Kong, the Group has set up a retirement scheme according to the mandatory provident fund requirement prescribed by the Mandatory Provident Scheme Ordinance. All the Hong Kong based employees and the Group is required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,500 by each of the employee and the Group) on a monthly basis to the fund.

## Disclosure of Interests

### (a) Interests and short positions of the Directors and chief executive of the Company

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set forth in Appendix 10 of the Listing Rules (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

| Name of Director | Company/Name of associated corporation | Capacity | Number of ordinary shares held(Note 1) | Percentage in the relative class of share capital (approx.) |
|---|---|---|---|---|
| Mr. Au Pak Yin ("Mr. Au") | Company | Interest in controlled corporation (Note 2) | 443,361,533 (L) | 71.37% |
| Mr. Au | Kytronics Holdings Limited ("Kytronics") | Beneficial owner | 5 (L) | 100% |

Notes:

1. The letter "L" denotes the Director's long position in such securities.

2. 443,361,533 Shares were owned by Kytronics. The issued share capital of Kytronics is owned as to 100% by Kytronics Growth Limited, which in turn is 100% held by Au Pak Yin, Tai Noi Kit Family Holdings Limited, a company wholly-owned by Mr. Au. Mr. Au Pak Yin is therefore deemed to be interested in these shares by virtue of his interests in Kytronics pursuant to Part XV of the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### (b) Substantial shareholders and other person's interest in the Shares

As at 31 December 2018, as far as is known to the Directors and the chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Company/Name of associated corporation | Capacity | Number of ordinary shares held | Percentage in the relevant class of share capital (approx.)(Note 1) |
|---|---|---|---|---|
| Kytronics | Company | Beneficial Owner | 443,361,533(Note 2) | 71.37% (L) |
| Kent C. McCarthy | Company | Interest in controlled corporation | 31,200,000(Note 3) | 5.02% (L) |

Notes:

1. The letter "L" denotes the person's long position in such securities.

2. 443,361,533 Shares were owned by Kytronics. The issued share capital of Kytronics is owned as to 100% by Kytronics Growth Limited, which in turn is 100% held by Au Pak Yin, Tai Noi Kit Family Holdings Limited, a company wholly-owned by Mr. Au. Mr. Au Pak Yin is therefore deemed to be interested in these shares by virtue of his interests in Kytronics pursuant to Part XV of the SFO. Ms. Tai Noi Kit is the spouse of Mr. Au Pak Yin. Accordingly, Ms. Tai Noi Kit is deemed to be interested in all the shares in which Mr. Au Pak Yin is interested.

3. 31,200,000 Shares were held by Jayhawk Private Equity Fund II, L.P. which is wholly-owned by Kent C. McCarthy.

Saved as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at 31 December 2018, had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## Management contracts

Save as disclosed under the heading "Connected Transactions", no other 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.

## Major suppliers and customers

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 34% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 13% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year represented approximately 34% of the total purchases of the Group and the purchases attributable to the Group's largest supplier were approximately 9% of total purchases.

In the Group's five largest suppliers, it included Guangdong Kong Yue Precision Industry Limited ("Guangdong Precision") which is connected to the Company. Details of the transaction had been stated under the section headed "Connected Transactions" of this annual report.

Save as disclosed above, none of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

## Connected Transactions

Details of the connected transactions entered into by the Group during the year are set out below:

| | Note | Actual transaction amount for the year ended 31 December 2018 RMB'000 |
|---|---|---|
| Continuing connected transactions | | |
| (I) Supply agreements with Guangdong Kong Yue Precision Industry Limited ("Guangdong Precision") | (i) | 15,307 |

Note:

(i) Pursuant to the agreement entered into by Kong Yue Electronics & Information Industry (Xin Hui) Limited ("Kongyue Information", a subsidiary of the Company) with Guangdong Precision on 27 October 2016 (collectively referred to as the "Precision Agreements"), Guangdong Precision agreed to supply plastic parts, components and molds to Kongyue Information from time to time as requested by the Kongyue Information. The annual cap of the transactions for the year ended 31 December 2018, in aggregate, is RMB34,620,000. The purchase prices for the plastic parts, components and molds supplied by Guangdong Precision was determined after arm's length negotiations with reference to the prevailing market prices of similar or comparable products offered by Guangdong Precision to independent third parties. The purchase prices will be settled by the Group on a monthly account basis.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive Directors. The independent non-executive Directors confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) have not exceeded the relevant annual maximum amount stipulated in the relevant agreement.

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

Several related party transactions as disclosed in Note 35 to the financial statements prepared in accordance with HKFRS fall under the definition of "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 December 2018 and at any time up to the date of this annual report.

## Subsequent Events

Of the 8,332,000 shares repurchased on 7 December 2018, the repurchased shares were cancelled on 9 January 2019.

## Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions contained in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2018 and all Directors confirmed that they have fully complied with the requirements set out in the Model Code during the year ended 31 December 2018.

## Compliance with the Corporate Governance Code

The Company is committed to the establishment of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain a high corporate governance standard and has complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as in effective from time to time (the "CG Code") during the year ended 31 December 2018, save for the deviation from code provision E.1.2 below.

In accordance with the requirements of code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. However, due to other business commitments, the chairman of the Board, Mr. Au Pak Yin, was unable to attend the annual general meeting of the Company held on 21 May 2018.

At the annual general meeting of the Company held on 21 May 2018, there was one executive Director and other independent non-executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

Further information of the corporate governance practice of the Company is also set out in the corporate governance report in this annual report.

## Auditor

The financial statements have been audited by the auditor of the Company, PricewaterhouseCoopers, who, being eligible, will retire and offer themselves for re-appointment at the upcoming AGM.

On behalf of the Board
**Au Pak Yin**
*Chairman*

Hong Kong, 22 March 2019

# Biographical Details of Directors and Senior Management

## Directors

### Executive Directors

**Mr. Au Pak Yin**, aged 72, is the chairman of the Company and a founder of the Group. He is in charge of corporate strategy and planning and the overall development of the Group. He has over 25 years of experience in distribution and manufacturing of business equipment in the PRC. Mr. Au first started to trade in Hong Kong in 1986 and in 1989, he began to engage in the trading of printers in the PRC. In 1997, Mr. Au and his family members commenced the production of SDM printers by establishing Kongyue Printing. The Group was founded by Mr. Au in 1998 through the establishment of Kongyue Information. Since June 2017, Mr. Au has served as the director of Jiangmen Palace International Food Co., Ltd. (江門麗宮國際食品股份有限公司), which was listed on National Equities Exchange and Quotations on 17 November 2017 (stock code: 872325). Mr. Au is an honorary citizen of Jiangmen. He is the father of Mr. Au Kwok Lun and Mr. Ou Guo Liang.

**Mr. Au Kwok Lun**, aged 46, is an Executive Director and the chief executive officer of the Company. He is primarily in charge of strategy execution and overall management of the Group. Mr. Au obtained a bachelor of arts degree in technical English from Huazhong University of Science & Technology in 1994 and a bachelor of business administration degree in information and system management from the Hong Kong University of Science & Technology in 1998. Prior to joining the Group in May 1999, Mr. Au Kwok Lun worked as a trainee engineer for Motorola Semiconductor Hong Kong Limited and assistant general manager of Kongyue Technology. He has over 15 years of operational experience in the distribution and manufacturing of business equipment in the PRC and has been overseeing the expansion of the Group. He is experienced in marketing and distribution, product development and supply procurement. Mr. Au is a standing member of the China Computer Industry Association, the Vice Chairman of the Printer Profession Committee of the China Computer Industry Association and a standing member of the China Computer Users Association and a standing member of the Printing and Image Display Application Sub-Committee of the China Computer Users Association, a member of the Executive Committee of Jiangmen Division, Pearl River Delta Industries Committee, Hong Kong Federation of Industries, and the Chinese People's Political Consultative Conference of Jiangmen City. In 2005, Mr. Au received the 2005 Young Industrialist Awards of Hong Kong from the Federation of Hong Kong Industries. Mr. Au Kwok Lun is the son of Mr. Au Pak Yin and the brother of Mr. Ou Guo Liang.

**Mr. Ou Guo Liang**, aged 43, is an Executive Director of the Company. He assists the chief executive officer in formulation of strategy, development of new business and the management of sales and marketing networks. He has over 15 years of experience in sales and marketing. Mr. Ou obtained a bachelor of economics degree in international corporate management from the Central University of Finance and Economics (中央財經大學) in 1998. Mr. Ou joined the Group in November 1998. Since June 2017, Mr. Au has served as the chairman of the board of Jiangmen Palace International Food Co., Ltd. (江門麗宮國際食品股份有限公司), which was listed on National Equities Exchange and Quotations on 17 November 2017 (stock code: 872325). He is the son of Mr. Au Pak Yin and the brother of Mr. Au Kwok Lun.

## Independent Non-Executive Directors

**Mr. Lai Ming, Joseph**, aged 74, was appointed as an Independent Non-Executive Director on 8 March 2005. Mr. Lai is a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), CPA Australia, the Chartered Institute of Management Accountants ("CIMA") and the HK Institute of Directors. He was also the President of the HKICPA in 1986.

He co-founded the HK Centre of CIMA (then known as the Institute of Cost and Management Accountants) in 1973 and served as its President in 1974/75 and 1979/80.

Until his retirement in 2004, Mr. Lai held key management positions in corporate finance and organisation and management information in several HK listed companies. He is an independent non-executive director of Country Garden Holdings Company Limited. He was an independent non-executive director of Shinhint Acoustic Link Holdings Limited but retired on 23 May 2014 and was an independent non-executive director of Guangzhou R&F Properties Co., Limited but retired on 19 May 2017. All of which are companies listed on the Stock Exchange of Hong Kong. Mr. Lai is also an independent non-executive director of Nan Fung Group Holdings Limited.

**Mr. Meng Yan**, aged 63, was appointed as an Independent Non-Executive Director on 8 March 2005. Mr. Meng obtained a doctorate degree in economics from the Financial Science Research Centre of the Ministry of Finance (財政部政科學研究所) in 1997 and was a consultant to the Accounting Standard Committee of the Ministry of Finance (財政部會計準則委員會) for two years from September 2002 to September 2004. From 2001 to 2003, Mr. Meng served as a member of the Listing Committee of the China Securities Regulatory Commission (中國證券監督管理委員會股票發行審核委員會). Mr. Meng has over 30 years experience in tertiary education of accountancy in the PRC. He had served as the dean of the School of Accountancy of the Central University of Finance and Economics (中央財經大學). Mr. Meng is currently a professor and PHD supervisor of the School of Accountancy of the Central University of Finance and Economics and also holds the posts of the managing director of the China Accounting Society, the managing director of the China Financial Accounting Society and the director of the China Auditing Society. Mr. Meng currently acts as an independent director of Beijing Capital Co., Ltd., an independent director of Beijing Bashi Media Co., Ltd., an independent non-executive director of China Isotope & Radiation Corporation, an independent non-executive director of Sinotrans Limited and an independent non-executive director of China Longyuan Power Group Corporation Limited..

**Mr. Yeung Kwok Keung**, aged 71, was appointed a non-executive director of the Company on 1 August 2011 and assumed the role of an Independent Non-Executive Director since 21 October 2013. He was involved in information technology, logistics and venture capital investment until his retirement in 2008. As a Distinguished Fellow of the Hong Kong Computer Society, Mr. Yeung had also served as its President. He was also the Chairman of the Information Technology Committee of the Hong Kong SAR Government.

Mr. Yeung participated broadly in public and community services, and served on professional bodies for many years. He had also served on a variety of high level advisory bodies in academia, industry and the government. He was a member of Hong Kong Productivity Council, Hong Kong Vocational Council and Hong Kong Logistics Council.

He is a Justice of the Peace in Hong Kong and an honorary citizen of Changchun.

Save as disclosed otherwise, there is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board.

## Senior Management

**Mr. Liang Qi Jiang** is the Vice President and General Manager of the Group's information equipment business division. He is responsible for the development and production of printer products. Mr. Liang graduated from Huazhong Polytechnic (華中工學院) (now known as Huazhong University of Science & Technology (華中科技大學). Mr. Liang has over 20 years of experience in the research and development and production management of printers. Mr. Liang joined the Group in August 1996.

**Mr. Sng Seng Poh** is the General Manager for the Group's manufacturing operations. He is responsible for the manufacturing operations activities of Jolimark machines. In March 1990, Mr. Sng obtained the Diploma in Business Efficiency & Productivity (Production Management) from NPB Institute for Productivity Training in Singapore. Mr. Sng has over 20 years of experience in production management of SMT. Before joining the Group, Mr. Sng has worked for Richgold Industries Pte Limited in Singapore. Mr. Sng joined the Group in December 1998.

**Mr. Rao Zi Neng** is the assistant to the President of the Group. He assists in the management of the Group's human resources, legal affairs, after-sales services, business services, document control centre, information system department and administration department. Mr. Rao is a senior engineer and has over 30 years of experience in software development, information technology management and system integration. Mr. Rao graduated from Zhejiang University in 1982, majoring in computer software. Before joining the Group, Mr. Rao worked for various electronics and information technology companies in the PRC, including Shenzhen Electronics Institute Ai Hua Electronics Limited (深圳愛華電子研究所), Shenzhen Ai Hua Ketuo Electronics Limited (深圳愛華科拓電子公司), Founder iASPEC (S7) Information Technologies Limited (方正永泰(深圳)信息技術有限公司) and Founder Cyber-Tech Co. Limited (深圳北大方正數碼科技有限公司). Mr. Rao joined the Group in July 2001.

The Company has adopted and complied with all the code provisions as set out in the Corporate Governance Code during the year ended 31 December 2018, save as disclosed below.

In accordance with the requirements of code provision E.1.2 of the Corporate Governance Code, the chairman of the Board should attend the annual general meeting. However, due to other business commitments, the chairman of the Board, Mr. Au Pak Yin, was unable to attend the annual general meeting of the Company held on 21 May 2018.

At the annual general meeting of the Company held on 21 May 2018, there was one executive Director and other independent non-executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

The following summarises the Company's corporate governance practices and explains deviations, if any, from the Corporate Governance Code.

## Directors' Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions contained in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2018 and all Directors confirmed that they have fully complied with the requirements set out in the Model Code during the year ended 31 December 2018.

## Board of Directors

As at 31 December 2018, the Board comprises three Executive Directors, being Mr. Au Pak Yin, Mr. Au Kwok Lun and Mr. Ou Guo Liang and three Independent Non-Executive Directors, being Mr. Lai Ming, Joseph, Mr. Meng Yan and Mr. Yeung Kwok Keung. Mr. Au Kwok Lun and Mr. Ou Guo Liang are the sons of Mr. Au Pak Yin. The Directors are considered to have a balance of skills and experience appropriate for the requirements of the business of the Company. Details of the Directors are shown on pages 22 to 23 of this annual report.

During the year ended 31 December 2018, five board meetings and one general meeting were held and the attendance was as follows:

| Name of Director | General meeting attendance | Board meeting attendance |
|---|---|---|
| **Executive Director** | | |
| Mr. Au Pak Yin | 0/1 | 5/5 |
| Mr. Au Kwok Lun | 1/1 | 5/5 |
| Mr. Ou Guo Liang | 0/1 | 4/5 |
| **Independent Non-Executive Director** | | |
| Mr. Lai Ming, Joseph | 1/1 | 5/5 |
| Mr. Meng Yan | 0/1 | 5/5 |
| Mr. Xu Guangmao *(resigned on 6 November 2018)* | 0/1 | 3/3 |
| Mr. Yeung Kwok Keung | 1/1 | 5/5 |

All of the above Directors had participated in continuous professional development to develop and refresh their knowledge and skills.

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. There is a clear division of responsibilities amongst committees and each of them has a specific term of reference. The Board is responsible for determining the overall strategy and approving the annual business plan of the Group, and ensuring the business operations are properly planned, authorised, undertaken and monitored. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions.

The Board has delegated the day-to-day responsibilities to the executive management.

## Chairman and Chief Executive Officer

Mr. Au Pak Yin has been appointed by the Board as the Chairman, who is responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues were discussed by the Board in a timely and constructive manner.

Mr. Au Kwok Lun has been appointed by the Board as the Chief Executive Officer, who is delegated with the responsibilities of operations, business development, investor relations and public relations of the Group. The Board also comprises Independent Non-Executive Directors who bring strong independent judgement, knowledge and experience to the Board. As noted under the paragraph headed "Audit Committee" of this annual report, all the Audit Committee members are Independent Non-Executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

## Independent Non-Executive Directors

Mr. Yeung Kwok Keung has been re-appointed for another three-year term on 1 August 2017 and other Independent Non–Executive Directors are re-appointed for another three-year term on 13 June 2017.

The Board also confirmed receipt of the annual confirmation letter from each of the Independent Non-Executive Directors confirming his independence for the year ended 31 December 2018.

## Remuneration Committee

The Board has established a Remuneration Committee ("RC"). The RC comprises Mr. Yeung Kwok Keung (Chairman), Mr. Meng Yan, Mr. Xu Guangmao (resigned on 6 November 2018) and Mr. Lai Ming, Joseph, who are all Independent Non-Executive Directors and Mr. Au Kwok Lun who is an Executive Director. During the year ended 31 December 2018, the RC had reviewed the remuneration packages of the Directors and senior management.

For the year ended 31 December 2018, the RC held one meeting. The attendance record of each member is as follows:

| Name of Director | Attendance |
|---|---|
| Mr. Yeung Kwok Keung *(Chairman of RC)* | 1/1 |
| Mr. Meng Yan | 1/1 |
| Mr. Xu Guangmao *(resigned on 6 November 2018)* | 1/1 |
| Mr. Au Kwok Lun | 1/1 |
| Mr. Lai Ming, Joseph | 1/1 |

The principal responsibility of the RC is to determine the remuneration of the Directors and members of the senior management.

## Nomination Committee

The Board has established a Nomination Committee ("NC"). The NC comprises Mr. Lai Ming Joseph (Chairman), Mr. Meng Yan, Mr. Xu Guangmao (resigned on 6 November 2018) and Mr. Yeung Kwok Keung, who are all Independent Non-Executive Directors. During the year ended 31 December 2018, NC had reviewed the structure, diversity and composition of the Board, and put forward recommendation to the Board on re-election of retiring directors.

For the year ended 31 December 2018, the NC held one meeting. The attendance record of each member is as follows:

| Name of Director | Attendance |
|---|---|
| Mr. Lai Ming, Joseph *(Chairman of NC)* | 1/1 |
| Mr. Meng Yan | 1/1 |
| Mr. Xu Guangmao *(resigned on 6 November 2018)* | 1/1 |
| Mr. Yeung Kwok Keung | 1/1 |

The Board adopted a board diversity policy setting out the approach to diversify members of the Board. The Company believes that a diversified perspective can be achieved through considering a number of factors, including but not limited to skills, regional and industry experience, background, race, gender and other qualities. The Company will also take into account factors based on its own business model and specific needs from time to time. Board appointments will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

The NC will review the board diversity policy on a regular basis to ensure its continued effectiveness.

## Auditor's Remuneration

PricewaterhouseCoopers had been appointed as the auditor of the Group. During the year ended 31 December 2018, fee for audit services (including review on interim results) was RMB1,450,000 and fee for non-audit services was RMB40,000.

## Audit Committee

The Board establishes a formal and transparent arrangement for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The Audit Committee ("AC") established by the Company has clear terms of reference. The Company confirmed receipt of acknowledgement from all directors of their responsibility for preparing the accounts.

All the members of the AC are Independent Non-Executive Directors. The AC is chaired by Mr. Lai Ming, Joseph who is a certified public accountant and the committee members are Mr. Meng Yan, Mr. Xu Guangmao (resigned on 6 November 2018) and Mr. Yeung Kwok Keung.

The functions specified in Code Provision C.3.3(a) to (n) of the Corporate Governance Code were included in the Terms of Reference of the AC. The Terms of Reference of the AC also explains the role and the authority delegated by the Board.

During the year, the AC also performed the Company's corporate governance function and reviewed related policy and made recommendation to the Board.

Two meetings were convened by the AC during the year ended 31 December 2018. The attendance record of each member is as follows:

| **Name of Director** | **Attendance** |
|---|---|
| Mr. Lai Ming, Joseph *(Chairman of AC)* | 2/2 |
| Mr. Meng Yan | 2/2 |
| Mr. Xu Guangmao *(resigned on 6 November 2018)* | 2/2 |
| Mr. Yeung Kwok Keung | 2/2 |

During the year ended 31 December 2018, the AC discussed and reviewed the final results of 2017 and interim results of 2018 and other reports for the year. Also, the AC met with the external auditor to discuss auditing and internal control matters.

## Board Nomination Policy

The Nomination Committee endeavours to ensure the Board of directors has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. In order to fulfill the requirements, formal and transparent procedures for the selection, appointment and re-appointment of Directors should be formulated.

The Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and making recommendations to the Board and thereafter shareholders of the Company for election as Directors at general meetings or appoint Directors to fill casual vacancies.

### Criteria for the nomination of a Director

Board appointments will be made on a merit basis and candidates will be considered against objective criteria. The selection criteria used in assessing the suitability of a proposed Director (the "Candidate") are listed below:

i. the Candidate's academic background and qualifications (including professional qualifications, skills and knowledge which are relevant to the Company's business and corporate strategy);

ii. the Candidate's relevant experience in the industry;

iii. the Candidate's character and integrity;

iv. the Candidate's willingness and capacity to devote adequate time commitment in discharge of a director's duties;

v. whether the Candidate can contribute to the Board a diversity of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

vi. (where the Candidate is proposed to be appointed as an independent non-executive Director) whether the Candidate is in compliance with the criteria of independence under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and

vii. any other factors as may be determined by the Board from time to time.

## Board Diversity Policy

The Board adopted a board diversity policy pursuant to the CG Code. The Company recognises and embraces the benefits of diversity of Board members. The Board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company business. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

## Dividend Policy

The Company considers stable and sustainable returns to the shareholders of the Company to be the goal. The Dividend Policy, in the consideration of the dividends payment, is to allow the shareholders to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

The declaration, payment, and amount of dividends will be subject to the Board's discretion. Dividends may be paid out of the distributable reserves of the Company as permitted under the relevant laws. There can be no assurance that the Company will be able to declare or distribute any dividend in the amount in any specific periods. The Company's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The payment and the amount of any dividends will depend on a number of factors, including but not limited to:

(i) the Group's actual and expected financial performance;

(ii) the retained earnings and distributable reserves of the Company and each of the members of the Group;

(iii) the Group's working capital requirements, capital expenditure requirements and future expansion plans;

(iv) the Group's liquidity position;

(v) the general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group;

(vi) the applicable laws and regulations including the Companies Law of the Cayman Islands and the Company's Bye-laws; and

(vii) any other factors that the board of directors of the Company deems relevant.

The Dividend Policy will be reviewed from time to time by the Board.

## Directors' Training

Pursuant to A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. From time to time, Directors are provided with written materials and director training webcasts to develop and refresh their professional skills. The Directors had fulfilled the relevant requirements under A.6.5 of the Corporate Governance Code during the year.

## Company Secretary's Training

Pursuant to rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary confirmed that he has taken no less than 15 hours of relevant professional development training by means of attending seminars and reading relevant guideline materials.

## Internal Control and Risk Management

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control and risk management systems and reviewing their effectiveness. The Group's internal control system has been designed for safeguarding assets, maintaining proper accounting records and ensuring reliability of the financial information. The Board has conducted a review of the effectiveness of the internal control and risk management systems of the Group which covers all material controls, including operational, financial and compliance controls and risk management functions. The internal audit department of the Company is implementing a procedure to review the major operational, financial and compliance controls and risk management functions of the Group on a continuing basis which aims to cover all major operations of the Group on a rotational basis. The Group also performs periodic review to ensure that resources, staff qualifications and experience of internal audit functions are adequate.

The Group's risk management framework includes the following elements:

- identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business;
- develop necessary measures to manage those risks;
- monitor and review the effectiveness of such measures.

The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and the AC reviews periodically the Group's risk management systems.

Based on the reports from the Group's internal audit department, the Board considers the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the Corporate Governance Code.

## Shareholders' Rights

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

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company by mail at Unit 01, 23A/F., K. Wah Centre, 191 Java Road, North Point, Hong Kong or by email at investor@jolimark.com. The Company Secretary forwards communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive officer of the Company.

## Investor Relations

There are no significant changes in the Company's constitutional documents during the year.

## Introduction

This is the environmental, social and governance (the "ESG") report (the "ESG Report") of Jolimark Holdings Limited (the "Company" and together with its subsidiaries, the "Group") for the year ended 31 December 2018.

The Company believes that this ESG Report enables the Company to communicate the Group's sustainability related matters in a transparent and accountable manner, which is key to gaining the trust of its stakeholders. The Group is committed to making continuous contribution to the sustainable development in China and overseas, and fulfilling corporate social responsibilities at various operational levels. This ESG Report provides an overview of the Group's performance related to sustainable development in the areas of the environment, community, employment and labour practices and operation convention for the year ended 31 December 2018.

Since the incorporation, the Group has been striving for excellence. In addition to constantly improving its performance and developing in a sustainable manner, the Group is highly concerned about the protection of employee rights and the environment, and is dedicated to giving back to the society and promoting self-improvement of employees. By incorporating social responsibilities into its development and long-term planning, the Group seeks to promote the mutual benefits among the economy, society, and environment, as well as a comprehensive sustainable development.

### Reporting Standard and Scope

This ESG Report has been prepared with reference to the ESG Reporting Guide as set forth under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

## Environment

### Aspect A1: Emissions

No waste water is produced during our production process, and therefore relevant disclosure is not applicable to the production business. For the domestic waste water which is discharged to the local municipal drainage system after undergoing septic tank treatment, although the environmental assessment does not require any inspection for domestic waste water and thus inspection is not conducted every year, the Group still engages the qualified inspection agencies of cooperative factories to conduct inspection for domestic waste water in 2018. According to the monitoring results showing PH: 7.26; SS: 34mg/L; CODcr:84mg/L; BOD5: 22.3mg/L; NH3-N: 5.16mg/L; total nitrogen: 7.09mg/L; phosphate (calculated in P): 0.21mg/L; total copper: 0.05 mg/L; total zinc: 0.05 mg/L; petroleum: 0.83 mg/L, all indicators are below or far below Pollutant, Class II, Second Duration, Level II of "Water Pollutant Emission Limits" (DB44/26-2001) promulgated by Guangdong Province.

A small amount of waste gas is produced only in the welding sequence during the production process and is discharged after high-altitude concentrated treatment through pipeline in the exhausting system. The waste gas comprises mainly particles and contains no NOx, SO2 and other pollutants restricted by laws and regulations of the PRC, nor does it contain any greenhouse gas.

The Group periodically engages qualified cooperative factories to monitor waste gas from production each year. According to the 2018 Waste Gas Monitoring Results, the emission intensity of particles was <20 mg/m3, far lower than the emission standard of 120 mg/m3, and the emission rate of particles was <0.13 Kg/h, far lower than the emission standard of 3.3 Kg/h (2017: the emission intensity of particles was 12.6 mg/m3; the emission rate of particles was 0.18 Kg/h); while the emission intensity of non-methane hydrocarbon was 7.65 mg/m3, far lower than the emission standard of 120 mg/m3, and the emission rate of non-methane hydrocarbon was 5.12*10-2 Kg/h, far lower than the emission standard of 12 Kg/h.

The Group has formulated the Waste Treatment Measures to carefully distinguish and handle general waste, hazardous waste, and recyclable and reusable waste produced during the production process. The Group also provides relevant training for employees to ensure that waste is properly classified and collected for the reuse and comprehensive treatment of recyclable substances. Suppliers who cooperate with us are directed and encouraged to recycle packaging waste with recovery value. The Group requests the suppliers who can use plastic baskets as packaging materials to try to use plastic baskets in order to reduce the production of packaging waste.

The Group produces only a small amount of hazardous waste in the production/office processes, mainly including scrap electric circuit board and waste printing ribbon. In 2018, 4.5 tonnes of hazardous waste (2017: 4.9 tonnes) were produced, representing a decrease of 0.4 tonnes as compared with last year, all of which were delivered to a qualified professional recycling agency for disposal and submitted to government authorities for approval as required.

Furthermore, the Group endeavored to promote employees' awareness regarding waste recycling and classification and placed recycling cans in living as well as production areas to increase the recycle rate of non-hazardous waste. In 2018, 150 tonnes of non-hazardous waste (2017: 159 tonnes) was produced, representing a decrease of approximately 9 tonnes as compared with last year. Non-hazardous waste mainly comprised packaging materials, cardboard boxes, foam sponges and small amount of domestic wastes, all of which with recovery value were delivered to a qualified waste recyclers for recycling.

In 2018, the Group did not discover any material breach of laws and regulations in relation to the environment.

## Aspect A2: Use of Resources

The Group is committed to making good use of resources and reducing resource consumption during its operation. The Group has formulated the Energy and Resource Management Measures as well as the Cooling System Control and Maintenance Measures to regulate the management and control of power, water, paper, oil, and raw materials. Also, the Group vigorously promotes and advocates the idea of energy conservation and consumption reduction among all employees and has implemented and reviewed the energy conservation and consumption reduction measures and assessed their effectiveness throughout the whole business process. The Group attaches particular importance to the control of resource usage starting from the stage of design and development, and all of its products have passed the national grade-I energy-saving certification and environmental label certification. While guaranteeing the quality of products, the Group also endeavors to achieve rational use of resources by reducing the use of raw materials for the repair of machines or enhancing maintenance capacities of parts and components and improving the recycling efficiency of materials through the ways of design enhancement and design optimization.

In 2018, the Group continued to strengthen the packaging by laminating the exterior packaging materials of all products, thereby reducing one layer of inner packaging box for each product. This helped us reduce approximately 230 tonnes of packaging box materials throughout the year.

In 2018, the Group consumed 1004 mWh of electricity for production (2017: 1072 mWh), decreasing by 68 mWh as compared with last year. Electricity consumption per unit product decreased by 0.20 kWh. Household and auxiliary electricity consumption was 410 mWh (2017: 415 mWh), decreasing by 5 mWh as compared with last year.

Although the Group did not use water for production and our domestic water consumption is mainly used for staff drinking, central air conditioning consumption, greening, fire pool evaporation, cleaning and toilet flushing which remained largely unchanged with insignificant fluctuation, the Group endeavored to improve by using water-saving faucets and preventing water dripping in order to achieve the effect of water-saving.

Due to an infrastructure project under construction and implementation of a cleaning work system in 2018, water consumption has increased. The water consumption of the renovation of the Group's office building throughout the year of 2018 and the implementation of the cleaning system of the storage area of temporary collection and delivery work zone, in which the ground is washed twice a week to achieve the dust removal effect, result in a larger increase in water consumption. The water consumption for 2018 was 40200 tonnes (2017: approximately 29700 tonnes), increasing by 10500 tonnes as compared with 2017.

### Aspect A3: Environment and Natural Resources

The Group consciously takes the impact of its activities and decisions on the environment into overall consideration. The Group has established, promoted and improved its environmental management system and environmental label product management system, strengthened various internal control measures, reinforced environmental monitoring and inspection and implemented strict environmental risk prevention and control measures so as to minimize the impact on the environment and natural resources during its production and operation process.

The Group does not use coal or natural gas in our production. Only two industrial forklifts use diesel and 6 trolleys use gasoline. Mobile forklifts are only used for handling, loading and unloading goods in the factory. In 2018, the consumption of diesel was only 4580 liters. The use of official cars is accounted for business use of business trips of employees and reception of guests only, with strict control measures and approval procedures. In 2018, the consumption of gasoline was 45000 liters. The Group also reduced the use of electricity and paper, encouraged its employees/suppliers to recycle packaging materials, office supplies and other materials to reduce the consumption of natural resources indirectly, and optimized design to reduce consumption of raw materials. All of the Group's products obtained environmental label certification and energy saving certification and all printer products reached national level I energy efficient standard. The Group also increased the green area and expanded the coverage ratio of plants on its factory premises by the maintenance of vegetation such as turf, rectification and replantation of trees which were blown down by typhoons, and implementation of greening around the newly renovated office building. These measures helped minimize the adverse impact on the environment.

## Society

### Aspect B1: Employment

The Group strictly abides by the provisions of the PRC Labor Law, and has not violated the relevant rules and regulations. The Group has signed a labor contract with each of its employees, and paid the salaries, overtime compensations and related benefits in a timely manner according to (or at a level higher than) the local minimum wage standard without any defaults; and granted all holiday and statutory paid leave entitlements to employees in compliance with national regulations. The Group treats every employee equally so that their employment, remuneration or promotion will not be affected by their social identities such as ethnicity, race, nationality, gender, religion, age, political faction and marital status.

The Group has established a trade union and a number of staff clubs relating to football, badminton, basketball, and family, and allocates special funds on a monthly basis to provide a wide variety of leisure and cultural activities to its employees. The Group also arranges free regular medical check-ups for its employees annually to show its care for them and cultivate a sense of belonging.

Besides, the Group provides competitive remuneration packages to its employees. The Group has also adopted a share option scheme and a reward system to recognize and reward those employees who have contributed to the growth and development of the Group.

An employee satisfaction survey is conducted on an annual basis. Upon receipt of the survey results, the Group will carefully consider all the valuable feedback from employees on how to improve the working environment, enhance the operating efficiency and create a harmonious workplace and so on. In 2018, a score of 93.1 points (2017: 91.7 points) omit was achieved for employee satisfaction, which is 1.4 points higher as compared with 2017. The employee turnover rate remained at a reasonable level, whereas the turnover rates of male employees and employees under the age of 25 were relatively higher.

## Aspect B2: Health and Safety

The Group has established the Safety Committee and is committed to improving health and safety performance on an ongoing basis. The Group has established a complete occupational health and safety management system according to the OHSAS18001 standards, and continuously and effectively promoted and implemented them to ensure a safe and healthy working environment for employees. Moreover, the Group has adopted a series of safety management and implemented safety measures to consolidate the achievements of the three-level safety production standardization. The Group also regularly reviews the implementation and effectiveness of related measures and monitors the environmental data of the workplace. The Group has implemented additional preventive measures for risk-related positions by providing training to related personnel to build a culture of risk awareness. Employees in risk-related positions will receive regular occupational disease examination each year. On top of this, a pre-recruitment and post-recruitment occupational disease examination mechanism was also enhanced to ensure the physical and mental healthiness of the employees. In 2018, the Group carried out 73 pre-job, on-the-job and post-job occupational disease inspection for employees in specific positions, achieving a full coverage (2017: 80 times).

The Safety Committee performs major safety inspection on a quarterly basis and takes correction measures to eliminate identified safety and health hazards timely. In addition to organizing the employees of the Group to receive training on the relevant occupational health and safety risks and taking protective measures for them, the Group also supervised and guided its related parties and strived to enhance their safety awareness and sense of safety responsibilities by exerting influence on them.

In 2018, the Group did not discover any material breach of laws and regulations in relation to occupational health and safety.

## Aspect B3: Development and Training

The Group strives to motivate its employees by offering clear career development paths and opportunities to enhance and improve their skills, maintain their competitiveness, professional expertise and code of ethics. The Group has a training room that can hold more than 100 people, with complete training facilities and internal trainers to provide orientation trainings and in-house trainings to its employees. The Group works out detailed training programs according to the needs of employees, requirements of positions and skills required by various departments within the company at the beginning of each year. Training programs cover different areas including management skills, sales & production, customer services, quality control, exhibition planning, code of conduct, and other industry-related trainings. The Group conducts training courses according to schedule and emphasizes the effectiveness of such courses, while the human resources department of the Group conducts regular follow-ups on the implementation of various trainings.

The Group arranges corresponding staff to participate in related trainings organized by various relevant government departments actively. Employees are also organized to engage other professional training agencies to conduct occupational skills trainings for staff to acquire more knowledge and skills every year. In 2018, the Group completed 734 training programs in total, involving 6798 people and a total of 37113 hours (2017: 926 training programs completed in total, involving 6395 people and a total of 51283 hours).

## Aspect B4: Labor Standards

The Group prohibits the employment of child and forced or compulsory labor in any of its operations. The HR department of the Group verifies the age of employees during the recruitment process and employs only those aged 18 and above. Employees of the Group work on a 5 days a week, 8 hours per day basis. Employees are entitled to paid leaves as per regulations of the state. The Group provides air-conditioned work place where employees are allowed to enjoy light music, take short breaks, or relax in other ways to alleviate their sense of tiredness during work. All employees have the rights to terminate employment with the Group freely by giving a reasonable notice. In 2018, the Group did not detect any employment of child labor or forced or compulsory labor. The Group did not receive any complaints from government authorities, nor were required to compensate employees or penalized due to violation of labor standards. When employees join the Group, the HR department thoroughly reviews their employment information (including but not limited to ID card, certificate of degree/diploma, qualification proof and employment certificate from previous employers). Should any employee be found to mis-represent or conceal information, the Group shall be entitled to terminate the labor contract without any compensation according to the law. Where an employee is forced to work, the head of the department where he works shall be held accountable and be penalized as per the Group's relevant regulations.

In 2018, the Group did not discover any material breach of laws and regulations in relation to employment of child labor or forced labor.

## Aspect B5: Supply Chain Management

The Group actively promotes sustainable development of the supply chain, and encourages its partners to fulfill social responsibilities in joint efforts. The Group has established long-term cooperative relationships with many suppliers, and strived to ensure their compliance with the Group's commitments to quality, environmental protection, low carbon operation, safety and ethical conducts. The Group selected suppliers carefully, and required them to satisfy several evaluation criteria, including track records, experience, financial strength, reputation, the capability to produce high quality products, the effectiveness of quality control, and environmental protection, safety, and public welfare responsibilities. For major suppliers, the Group will establish an assessment team to perform on-site assessment on them and verify their samples before including them in the Group's list of qualified suppliers. The Group prudently selects suppliers based on such factors as quality, delivery punctuality, and price, and hold at least two suppliers in reserve for each material.

Suppliers are also required to observe the Group's anti-corruption policy. The Group is dedicated to maintaining equal cooperation and mutual benefits with its suppliers, and would also conduct long-term quality monitoring and regular review of all suppliers to ensure effective influence and control on the supply chain.

## Aspect B6: Product Responsibilities

The Group believes that products are at the core of corporate competitiveness. To effectively improve the product quality and protect customer rights and interests, the Group keeps strict control over the product quality starting from the stage of research and development. The Group carries out stringent quality control in each process, including dedicated design, comprehensive engineering measurement, procurement on demand, production which strictly follows the work guidelines, all-inclusive inspection, and delighted after-sales services, and performs multiple tests on function and performance before storing the product in the warehouse, so as to ensure the product quality for the satisfaction of customers.

Due to the stability and realibility of the quality, the Group's products passed every sample-based quality supervision and inspection conducted by government authorities. The Group adopted a set of internal product standards which is more stringent than the national standards to control the product quality and ensure the superior product quality. A number of the Group's products have received the Scientific and Technological Progress Awards granted by provincial and municipal government authorities, and the dot-matrix type printer and mini printer under the "Jolimark" brand were awarded the two titles of Provincial Famous Brand Products.

In 2018, none of the Group's products was subject to product recall for quality, safety or health reasons. The after-sale department collaborated with the quality control department to respond to and handle customers' complaints. The Group sets up two 400 telephone lines and created a private website to answer customers' inquiries and requests for services timely. The Group also paid much attention to online feedback on issues. It regularly collected customers' opinions and assembled relevant departments to discuss solutions for these issues. For complaints about quality issues, the Group would assign support personnel to visit the customer and properly resolve the issue through on-site resolution or by returning or replacing the product or other methods as required by the customer.

The Group also attaches great importance to the after-sale service quality, and has constructed a complete sales and after-sales service network by licensing more than 1300 certified sales outlets in medium and large-sized cities and tier-2 and tier-3 cities throughout China. For products sold online, the Group strictly abides by the "7 days return and exchange with no questions asked" policy. For products within warranty period, the Group's policy is for contracted dealers to provide on-site repair. For damaged key components and parts of customers, the Group will recover, verify, and analyze them. Some of the analysis information can be used to improve product quality.

Although the Group seldom has access to information of end customers as the Group's products are mostly sold through dealers, the Group attaches great importance to the protection of customers' information and privacy. The Group sets up access permission for dealers' information and customers' information obtained through the after-sale system. The information shall be used for internal statistics and analysis purpose only and shall not be used for any commercial purposes nor disclosed. The Group also requires that the Group's dealers shall not disclose the information and privacy of customers to any irrelevant cooperative factories, nor shall they use the information for any form of commercial purposes to obtain benefits.

## Aspect B7: Anti-corruption

The Group allows zero tolerance for corruption and bribery throughout its operations. The Group has an internal audit department to conduct regular business audit in the procurement department and other relevant departments. All business contracts with cooperative factories are subject to professional reviews by the legal department, and a series of internal financial management systems were formulated for standard management purpose to ensure corruption and bribery are prevented at the origin. In 2018, no case of corruption and bribery occurred in the Group.

To ensure that employees comply with the relevant policies and maintain high ethical standards, the Group educates the relevant employees about the prevention of corruption and bribery. The Group also warns employees against fraud, extortion and money laundering through propaganda campaigns. Should any employee discover leads on corruption or bribery, he or she may report them to the audit department. Upon receipt of the report, the audit department shall carry out investigations on the matter as per the Group's procedures and strictly protect the whistle-blower. Once the offence is verified, the matter will be handled in accordance with the Group's regulations. Those who violate the Criminal Law shall be transferred to the judiciary authorities.

## Aspect B8: Community Investment

The Group has been focusing on the promotion of community and education projects which are of much concern. The Group encourages its employees to participate in the non-remunerated blood donation activity under a community health program, with the cumulative amount of donated blood exceeding 40000 ml. Furthermore, the Group is enthusiastic about the development of educational undertakings. The Group has established “Scholarships for Outstanding Students of Jolimark Employees” and “Jolimark Education Scholarship” and organized the “Jolimark Cup” literary creation contest for primary and secondary school students in Jiangmen. Each year, the Group allocates hundreds of thousands of Yuan to award students who are excellent in virtues and study. These efforts have played a good exemplary role in promoting the development of educational undertakings, creating a good style of study, encouraging students to explore actively, become confident and self-reliance and seek pluralistic development, and inspiring a great number of students to rise in great vigor. Meanwhile, the Group sponsored “Jolimark Cup 2016-2025 Jiangmen Youth Campus Football Level-Four League”, thereby contributing to the social welfare undertakings.

# Independent Auditor's Report

**To the Shareholders of Jolimark Holdings Limited**
*(incorporated in the Cayman Islands with limited liability)*

## Opinion

What we have audited

The consolidated financial statements of Jolimark Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 45 to 112, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

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

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Impairment of goodwill
- Impairment of investments accounted for using the equity method

| Key Audit Matters | How our audit addressed the Key Audit Matters |
|---|---|
| **Impairment of goodwill**<br>Refer to note 4(d) and note 9 to the consolidated financial statements<br><br>The goodwill balance of RMB5,742,000 arose on the acquisition of Shenzhen Coolwi Technology Company Limited ("Coolwi") in 2014, which is subject to an annual impairment assessment according to HKAS 36.<br><br>Management adopted the discounted cashflow method to perform the assessment. When management prepared the assessment, they exercised critical judgement in regard of selection of the methodology, estimation of revenue growth rate and the discount rate.<br><br>We focused on this area due to the significant value of goodwill and the critical estimates made by management. | We involved our internal valuation experts in assessing the appropriateness of the methodology used by management.<br><br>We challenged the reasonableness of the estimations by performing the following procedures:<br><br>✓ compared the operating result with historical information of the number of users and sales volume for the year ended 31 December 2018 prepared by management and assessed the reasonableness of the updated future profit and cash flow forecasts for the years after 2018;<br><br>✓ compared the growth rate of revenue, approved budgets and business plans to historical results of Coolwi as well as the economic and industry forecasts;<br><br>✓ benchmarked the discount rate against our own internal data, taking into account the cost of capital of Coolwi and comparable entities;<br><br>✓ benchmarked the inflation rate against available government data.<br><br>We performed sensitivity analysis over growth rate of revenue to assess the potential impact of possible outcome.<br><br>Based on our audit procedures, we considered the judgement and estimates made by the management were supportable by available evidence and consistent with our understanding. |

| Key Audit Matters | How our audit addressed the Key Audit Matters |
|---|---|
| **Impairment of investments accounted for using the equity method**<br>Refer to note 4(d) and note 11 to the consolidated financial statements.<br><br>The Group held interest in associates, which is accounted for using the equity method. When the objective evidences that indicate impairment are identified, the management performed impairment assessments by comparing the recoverable amounts of the interest with its carrying amounts.<br><br>As at 31 December 2018, the Group found that the carrying amount of the investments in Wuhan Hong Ruida Information Technology Limited Company ("Hong Ruida") exceeded its recoverable amount. During the year ended 31 December 2018, the Group made an impairment charge of RMB3,486,000 against the carrying amount of RMB3,486,000 in Hong Ruida.<br><br>Impairment charge measurement had taken into account the estimation of key assumptions based on value-in-use as determined by the enterprise discounted cash flow model including revenue growth rates and the discount rate.<br><br>We focused on this area due to the magnitude of the impairment charge was significant during the year and significant judgements were required to be exercised by management to determine the key assumptions adopted in the applicable valuation model. | We challenged the reasonableness of the assumptions by performing the following procedures:<br><br>✓ compared the historical operating result with cash flow forecasts compiled by management for the year ended 31 December 2018 and assessed the reasonableness of the updated future profit and cash flow forecasts for the years after 2018;<br><br>✓ tested mathematical accuracy and checked to the financial data of Hong Ruida;<br><br>✓ compared the growth rate of revenue to Hong Ruida's budgets and business plans, taking into consideration of the economic and industry forecasts and other evidence of future intentions for Hong Ruida;<br><br>✓ benchmarked the discount rate adopted in the valuation model against our own internal data, taking into account the cost of capital.<br><br>We performed sensitivity analysis over growth rate of revenue to assess the potential impact of possible outcome.<br><br>Based on our audit procedures, we were satisfied that management's assessments were reasonable and consistent with the evidence that we obtained. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of 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 Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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 judgment 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Pang Ho Yin.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 22 March 2019

# Consolidated Balance Sheet

As at 31 December 2018
(All amounts in Renminbi Yuan thousands unless otherwise stated)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 103,640 | 94,402 |
| Land use rights | 8 | 8,010 | 8,299 |
| Intangible assets | 9 | 11,726 | 11,911 |
| Investments accounted for using the equity method | 11 | 9,132 | 14,870 |
| Financial assets at fair value through profit or loss | 17 | 463 | – |
| Financial assets at fair value through other comprehensive income | 13 | 6,214 | – |
| Available-for-sale financial assets | 12 | – | 2,556 |
| Deferred income tax assets | 23 | 4,349 | 2,190 |
| Restricted cash | 19 | 7,000 | 58,120 |
| Other receivables | 16 | 3,158 | 1,781 |
| Other assets | | 3,038 | – |
| | | 156,730 | 194,129 |
| **Current assets** | | | |
| Inventories | 15 | 91,876 | 79,795 |
| Trade and other receivables | 16 | 27,390 | 49,997 |
| Financial assets at fair value through profit or loss | 17 | – | 20,092 |
| Time deposits | 19 | 57,960 | – |
| Restricted cash | 19 | 254 | 253 |
| Cash and cash equivalents | 18 | 95,388 | 171,056 |
| | | 272,868 | 321,193 |
| **Total assets** | | 429,598 | 515,322 |
| **EQUITY** | | | |
| **Capital and reserves attributable to shareholders of the Company** | | | |
| Share capital and premium | 20 | 12,814 | 51,297 |
| Other reserves | 21 | 256,185 | 252,643 |
| Retained earnings | | 8,799 | 40,365 |
| **Non-controlling interests** | | (119) | (455) |
| **Total equity** | | 277,679 | 343,850 |

# Consolidated Balance Sheet (continued)

As at 31 December 2018
(All amounts in Renminbi Yuan thousands unless otherwise stated)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 22 | **31,543** | 50,154 |
| Deferred income tax liabilities | 23 | **475** | 667 |
| | | **32,018** | 50,821 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | **62,076** | 86,317 |
| Contract liabilities | 2.2 | **4,010** | – |
| Current income tax liabilities | | **3,815** | 4,334 |
| Borrowings | 22 | **50,000** | 30,000 |
| | | **119,901** | 120,651 |
| **Total liabilities** | | **151,919** | 171,472 |
| **Total equity and liabilities** | | **429,598** | 515,322 |

The notes on pages 51 to 112 are an integral part of these consolidated financial statements.

The financial statements on pages 45 to 112 were approved by the Board of Directors on 22 March 2019 and were signed on its behalf:

**Mr. Au Pak Yin**
*Director*

**Mr. Au Kwok Lun**
*Director*

# Consolidated Income Statement

For the year ended 31 December 2018
(All amounts in Renminbi Yuan thousands unless otherwise stated)

| | Note | 2018 | 2017 |
|---|---|---|---|
| Revenue | 5 | **329,621** | 373,188 |
| Cost of goods sold | 26 | **(224,595)** | (241,790) |
| **Gross profit** | | **105,026** | 131,398 |
| Other income | 25 | **5,765** | 7,663 |
| Selling and marketing expenses | 26 | **(40,130)** | (37,740) |
| Administrative expenses | 26 | **(40,375)** | (47,065) |
| Research and development expenses | 26 | **(44,523)** | (28,111) |
| Other gains – net | 28 | **440** | 1,523 |
| **Operating (loss)/profit** | | **(13,797)** | 27,668 |
| Finance expenses – net | 29 | **(10,138)** | (500) |
| Share of losses of investments accounted for using the equity method | 11 | **(1,081)** | (657) |
| Impairment of investment in associates | 11 | **(3,586)** | (6,443) |
| **(Loss)/profit before income tax** | | **(28,602)** | 20,068 |
| Income tax expenses | 30 | **(439)** | (6,593) |
| **(Loss)/profit for the year** | | **(29,041)** | 13,475 |
| **(Loss)/profit attributable to:** | | | |
| – Shareholders of the Company | | **(28,274)** | 13,853 |
| – Non-controlling interests | | **(767)** | (378) |
| | | **(29,041)** | 13,475 |
| **(Loss)/earnings per share for (loss)/profit attributable to the shareholders of the Company during the year (expressed in RMB per share)** | | | |
| – Basic | 31 | **(0.045)** | 0.021 |
| – Diluted | 31 | **(0.045)** | 0.021 |

The notes on pages 51 to 112 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018
(All amounts in Renminbi Yuan thousands unless otherwise stated)

| | 2018 | 2017 |
|---|---|---|
| **(Loss)/profit for the year** | **(29,041)** | 13,475 |
| | | |
| **Other comprehensive income** | | |
| *Items that will not be reclassified to profit or loss* | | |
| Changes in the fair value of equity investments at fair value through other comprehensive income | **1,130** | – |
| Income tax relating to these items | **(311)** | – |
| **Other comprehensive income for the year, net of tax** | **819** | – |
| **Total comprehensive income for the year** | **(28,222)** | 13,475 |
| **Total comprehensive income for the year attributable to:** | | |
| – Shareholders of the Company | **(27,508)** | 13,853 |
| – Non-controlling interests | **(714)** | (378) |
| | **(28,222)** | 13,475 |

The notes on pages 51 to 112 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(All amounts in Renminbi Yuan thousands unless otherwise stated)

| | Attributable to shareholders of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital and premium (note 20) | Other reserves (note 21) | Retained earnings | Non-controlling interests | Total equity |
| **Balance at 1 January 2017** | 24,578 | 245,913 | 51,616 | (77) | 322,030 |
| **Comprehensive income** | | | | | |
| Profit for the year | – | – | 13,853 | (378) | 13,475 |
| **Contributions by and distributions to the shareholders of the Company recognized directly in equity** | | | | | |
| Transfer to the statutory reserve and enterprise expansion fund | – | 3,104 | (3,104) | – | – |
| Share options granted to employees | – | 3,914 | – | – | 3,914 |
| Exercise of share options | 1,252 | (283) | – | – | 969 |
| Share options forfeited during the year | – | (5) | – | – | (5) |
| Placing of new shares | 25,467 | – | – | – | 25,467 |
| Dividends (note 32) | – | – | (22,000) | – | (22,000) |
| | 26,719 | 6,730 | (11,251) | (378) | 21,820 |
| **Balance at 31 December 2017** | 51,297 | 252,643 | 40,365 | (455) | 343,850 |
| **Balance at 1 January 2018** | **51,297** | **252,643** | **40,365** | **(455)** | **343,850** |
| **Comprehensive income** | | | | | |
| Loss for the year | **–** | **–** | **(28,274)** | **(767)** | **(29,041)** |
| Other comprehensive income | **–** | **766** | **–** | **53** | **819** |
| **Total comprehensive income for the year** | **–** | **766** | **(28,274)** | **(714)** | **(28,222)** |
| **Contributions by and distributions to the shareholders of the Company recognized directly in equity** | | | | | |
| Non-controlling interests on newly set-up subsidiary | **–** | **–** | **–** | **1,050** | **1,050** |
| Share options granted to employees | **–** | **2,821** | **–** | **–** | **2,821** |
| Share options forfeited during the year | **–** | **(45)** | **–** | **–** | **(45)** |
| Repurchase of shares of the Company (note 20) | **–** | **–** | **(29,275)** | **–** | **(29,275)** |
| Cancellation of shares of the Company (note 20) | **(25,983)** | **–** | **25,983** | **–** | **–** |
| Dividends (note 32) | **(12,500)** | **–** | **–** | **–** | **(12,500)** |
| **Total contributions by and distributions to the shareholders of the Company recognized directly in equity** | **(38,483)** | **2,776** | **(3,292)** | **1,050** | **(37,949)** |
| **Balance at 31 December 2018** | **12,814** | **256,185** | **8,799** | **(119)** | **277,679** |

The notes on pages 51 to 112 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(All amounts in Renminbi Yuan thousands unless otherwise stated)

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash (used in)/generated from operations | 33 | **(16,825)** | 22,513 |
| Income tax paid | | **(3,784)** | (9,094) |
| Interest paid | | **(5,062)** | (4,016) |
| **Net cash (used in)/generated from operating activities** | | **(25,671)** | 9,403 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(18,258)** | (12,915) |
| Purchase of other assets | | **(2,021)** | – |
| Disposals of property, plant and equipment | | **278** | 2 |
| Acquisition of financial assets at fair value through other comprehensive income | | **(2,528)** | – |
| Acquisition of a business, net cash paid (note 6) | | **(1,433)** | – |
| Acquisition of investments accounted for using the equity method | | **(537)** | (4,000) |
| Proceeds from sale of/(acquisition of) financial assets at fair value through profit or loss | | **19,537** | (20,000) |
| Deposits in a financial institution | | **(57,960)** | – |
| Proceeds from sale of an associate | | **600** | – |
| Dividend received from an associate | | **910** | 600 |
| Interests received | | **4,343** | 4,149 |
| **Net cash used in investing activities** | | **(57,069)** | (32,164) |
| **Cash flows from financing activities** | | | |
| Bank deposits released from borrowings | | **57,960** | 69,550 |
| Bank deposits secured for borrowings | | **(7,000)** | – |
| Proceeds from borrowings | | **79,080** | 30,000 |
| Repayments of borrowings | | **(82,575)** | (107,340) |
| Dividends paid to shareholders of the Company | | **(12,500)** | (22,000) |
| Proceeds from exercise of share options | | **–** | 969 |
| Placing of new shares | | **–** | 25,467 |
| Repurchase of shares of the Company | | **(29,275)** | – |
| Capital contribution from a non-controlling interest | | **1,050** | – |
| **Net cash generated from/(used in) financing activities** | | **6,740** | (3,354) |
| **Net decrease in cash and cash equivalents** | | **(76,000)** | (26,115) |
| Cash and cash equivalents at beginning of the year | | **171,056** | 198,516 |
| Exchange gains/(losses) on cash and cash equivalents | | **332** | (1,345) |
| **Cash and cash equivalents at end of the year** | 18 | **95,388** | 171,056 |

The notes on pages 51 to 112 are an integral part of these consolidated financial statements.

## 1. General Information

(a) Jolimark Holdings Limited (the "Company") was incorporated in the Cayman Islands on 22 July 2004 as an exempted company with limited liability under the Companies Law (2003 Revision) of the Cayman Islands. The address of its registered offices is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(b) The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are manufacture and sale of printers and other electronic products in the People's Republic of China (the "PRC").

(c) The Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 29 June 2005.

(d) These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 22 March 2019.

## 2. Summary of Significant Accounting Policies

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

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The preparation of financial statements in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

## 2. Summary of Significant Accounting Policies (Continued)

### 2.1 Basis of preparation (Continued)

#### (a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018.

| | |
|---|---|
| HKAS 28 (Amendments) | Investments in Associates and Joint Ventures |
| HKAS 40 (Amendments) | Transfers of Investment Property |
| HKFRS 1 (Amendments) | First Time Adoption of HKFRS |
| HKFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions |
| HKFRS 4 (Amendments) | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| HK (IFRIC) 22 | Foreign Currency Transactions and Advance Consideration |

The Group has assessed the impact of the adoption of these new and amended standards that are effective for the first time for this financial year. The Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in note 2.2. The other standards, amendments and interpretations did not have any impact on the Group's accounting policies and did not require retrospective amendments and interpretation adjustments.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 2. Summary of Significant Accounting Policies (Continued)

### 2.1 Basis of preparation (Continued)

#### (b) New and amended standards and interpretations issued but are not effective for financial year ended 31 December 2018 and have not been early adopted by the Group

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKFRS 16 | Lease | 1 January 2019 |
| HKFRS 9 (Amendments) | Prepayment Features with Negative Compensation | 1 January 2019 |
| HKAS 19 (Amendments) | Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| HKAS 28 (Amendments) | Long-term Interests in Associates or Joint Ventures | 1 January 2019 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |
| Annual Improvements to 2015–2017 Cycle | Improvements to HKFRS | 1 January 2019 |
| HK (IFRIC) 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| HKAS 1 and HKAS 8 (Amendments) | Definition of Material | 1 January 2020 |
| HKFRS 3 (Amendments) | Definition of a Business | 1 January 2020 |
| HKFRS 17 | Insurance Contracts | 1 January 2021 |

The above new standards, amendments to existing standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the one set out below:

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

## 2. Summary of Significant Accounting Policies (Continued)

### 2.1 Basis of preparation (Continued)

#### (b) New and amended standards and interpretations issued but are not effective for financial year ended 31 December 2018 and have not been early adopted by the Group (Continued)

HKFRS 16 Leases (Continued)

Impact

As at 31 December 2018, the Group had non-cancellable operating lease commitments of RMB1,832,000 (Note 34). The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

The Group expects to increase in the amount of recognized financial liabilities and right-of-use assets for significant long term lease contracts. Operating cash flows will increase and financing cash flows decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group does not expect any significant impact on the financial statements for the Group's activities as a lessor. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

(All amounts in Renminbi Yuan thousands unless otherwise stated)

# 2. Summary of Significant Accounting Policies (Continued)

## 2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the consolidated financial statements of the Group.

### (a) Impact on the financial statements

The Group applied the modified retrospective approach to adopt HKFRS 9 and HKFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the balance sheet as at 31 December 2017, but are recognized in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

| Consolidated balance sheet (extract) | 31 December 2017 | HKFRS 9 | HKFRS 15 | 1 January 2018 Reclassified |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Financial assets at fair value through other comprehensive income ("FVOCI") | – | 2,556 | – | 2,556 |
| Available-for-sale financial assets | 2,556 | (2,556) | – | – |
| **Total assets** | 2,556 | – | – | 2,556 |
| **Current liabilities** | | | | |
| Trade and other payables | 86,317 | – | (13,615) | 72,702 |
| Contract liabilities | – | – | 13,615 | 13,615 |
| **Total liabilities** | 86,317 | – | – | 86,317 |

### (b) HKFRS 9 Financial Instruments

#### (i) Classification and measurement

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has classified its financial instruments into the appropriate HKFRS 9 categories.

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale. As a result, assets with a fair value of RMB2,556,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI. There is no impact on the Group's equity as at 1 January 2018.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 2. Summary of Significant Accounting Policies (Continued)

### 2.2 Changes in accounting policies (Continued)

#### (b) HKFRS 9 Financial Instruments (Continued)

(ii) Impairment of financial assets

The Group's significant financial assets which are subject to the new expected credit loss model include trade receivables and other receivables. The Group was required to revise its impairment methodology under HKFRS 9 for these classes of financial assets.

While cash and cash equivalents and restricted cash are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For other receivables, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The group assesses on a forward looking basis the expected credit losses under HKFRS 9 has not resulted in any additional impairment loss for other receivables as at 1 January 2018.

For trade receivable, the Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

#### (c) HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements at 1 January 2018. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules modified retrospectively and therefore has not restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognized in the opening balance sheet on 1 January 2018:

| | HKAS 18 carrying amount 31 December 2017 | Reclassification | HKFRS 15 carrying amount 1 January 2018 |
|---|---|---|---|
| Trade and other payables | 86,317 | (13,615) | 72,702 |
| Contract liabilities (i) | – | 13,615 | 13,615 |

(i) Presentation of liabilities related to contracts with customers

The Group has voluntarily changed the presentation of the following amounts in the balance sheet to reflect the terminology of HKFRS 15:

Contract liabilities recognized in relation to the payments made by distributors or customers prior to the Group's goods transferring were previously included in trade and other payables (RMB13,615,000 as at 1 January 2018).

There was no impact on the Group's retained earnings as at 1 January 2018.

# 2. Summary of Significant Accounting Policies (Continued)

## 2.3 Principles of consolidation and equity accounting

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2018.

### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 2.4).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### (b) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (c) below), after initially being recognized at cost.

# 2. Summary of Significant Accounting Policies (Continued)

## 2.3 Principles of consolidation and equity accounting (Continued)

### (c) Equity method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.11.

## 2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

## 2. Summary of Significant Accounting Policies (Continued)

### 2.4 Business combinations (Continued)

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

### 2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management of the Company that make strategic decisions.

## 2. Summary of Significant Accounting Policies (Continued)

### 2.7 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi Yuan ("RMB"), which is the Company's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within "finance expenses – net". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains – net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognized in other comprehensive income.

# 2. Summary of Significant Accounting Policies (Continued)

## 2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replace part is derecognized. All other repairs and maintenance are charged to the consolidated income statement during the period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 40 years |
| Plant and machinery | 10 – 20 years |
| Furniture and fixtures | 5 years |
| Leasehold improvements | Lower of lease term or estimated useful life of 2 – 5 years |
| Motor vehicles | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

## 2.9 Land use rights

Cost of acquiring rights to use certain land for the Group's operations over a certain period is considered as prepaid operating lease and is recorded as land use rights in the consolidated balance sheet. Land use rights are recognized as an expense on a straight-line basis over the remaining lease term or the operating license period, whichever is shorter.

## 2. Summary of Significant Accounting Policies (Continued)

### 2.10 Intangible assets

#### (a) Goodwill

Goodwill is measured as described in note 2.4. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 5).

#### (b) Proprietary technology

Proprietary technology is recognized at historical cost. Proprietary technology has a definite useful life and is carried at cost less accumulated amortization and impairment. Amortization is calculated using the straight-line method to allocate the cost of proprietary technology over its estimated useful life (10 years).

### 2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

# 2. Summary of Significant Accounting Policies (Continued)

## 2.12 Investments and other financial assets

### (a) Classification

From 1 January 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The group reclassifies debt investments when and only when its business model for managing those assets changes.

### (b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

### (c) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

## 2. Summary of Significant Accounting Policies (Continued)

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

#### (c) Measurement (Continued)

Equity instruments

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

#### (d) Impairment

From 1 January 2018, for trade receivables, the group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

#### (e) Accounting policies applied until 31 December 2017

The Company has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Until 31st December 2017 the Company classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. See note 14 for details about each type of financial asset.

# 2. Summary of Significant Accounting Policies (Continued)

## 2.12 Investments and other financial assets (Continued)

### (e) Accounting policies applied until 31 December 2017 (Continued)

#### Reclassification

Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

#### Subsequent measurement

The measurement at initial recognition did not change an adoption of HKFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables were subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for financial assets at fair value through profit or loss – in profit or loss within other gains/(loss)

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income

- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in note 3.3.

#### Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

# 2. Summary of Significant Accounting Policies (Continued)

## 2.12 Investments and other financial assets (Continued)

### (e) Accounting policies applied until 31 December 2017 (Continued)

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is described in note 16.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

## 2.13 Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. 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.

## 2. Summary of Significant Accounting Policies (Continued)

### 2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 180 days and therefore are all classified as current.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 16 for further information about the Group's accounting for trade receivables and note 2.12 for a description of the Group's impairment policies.

### 2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.16 Share capital and premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

### 2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## 2. Summary of Significant Accounting Policies (Continued)

### 2.18 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### 2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

### 2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

# 2. Summary of Significant Accounting Policies (Continued)

## 2.20 Current and deferred income tax (Continued)

### (b) Deferred income tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

## 2.21 Employee benefits

### (a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

### (b) Post-employment obligations

#### (i) Pension obligations

The Group participates in a number of defined contribution plans in the PRC and Hong Kong, the assets of which are generally administrated by the relevant authority of the PRC or held in separate trustee-administered funds in Hong Kong. The pension plans are generally funded by payments from employees and the relevant group entities. The Group pays contributions to the pension plans on a mandatory or contractual basis which are calculated as a percentage of the employees' salaries.

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The contributions are recognized as employee benefit expenses when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to fully vesting in the contributions.

# 2. Summary of Significant Accounting Policies (Continued)

## 2.21 Employee benefits (Continued)

### (c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

## 2.22 Share-based payments

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets) and any non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity reassesses its estimates of the number of options that are expected to vest, and recognizes the impact of the revision of original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiaries of the Group is treated as capital contribution to the subsidiaries in the Company's financial statements. The fair value of employee services received, measured by reference to the fair value of the options granted, is recognized over the vesting period as an increase to investment in subsidiary, with a corresponding credit to equity.

## 2.23 Provisions

Provisions for legal claims, service warranties and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

## 2. Summary of Significant Accounting Policies (Continued)

### 2.24 Revenue recognition

#### (a) Sales of goods

The principal activities of the Group are manufacture and sale of printers and other electronic products. The Group sells the products to end users through third party distributors or corporate customers ("customers") mainly. Sales are recognized when control of the products has transferred, being when the products are delivered to the specific locations designated by the customers, the customers have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The printers are often sold with retrospective volume discounts based on aggregate sales over a certain period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the most likely amount, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 30–180 days, which is consistent with market practice. The group's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

#### (b) Provision of services

Provision of services is recognized in the accounting period in which the services are rendered.

### 2.25 Interest income

Interest income is recognized on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### 2.26 Dividend income

Dividends are recognized as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

### 2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 34). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## 2. Summary of Significant Accounting Policies (Continued)

### 2.28 Dividends distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.29 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

## 3. Financial Risk Management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

#### (a) Market risk

##### (i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US$") and Hong Kong dollars ("HK$"). The Group's businesses are principally conducted in RMB, except for import of certain raw materials and machinery from overseas suppliers, sales of goods to overseas customers and borrowing that are denominated in US$ or HK$.

As at 31 December 2018, the Group had more financial liabilities than financial assets outside the mainland China. The Group manages and monitors its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by reducing the financial liabilities if needed. The Group has not entered into any forward exchange contracts to hedge its exposure to foreign exchange risk.

As at 31 December 2018, if RMB had strengthened/weakened by 4.9% against the US$ and HK$ with all other variables held constant, post-tax loss for the year would be lower/higher by RMB1,000,000 (2017: if RMB had strengthened/weakened by 6.2% against the US$ and HK$, post-tax profit would be higher/lower by RMB 1,237,000), which is mainly attributable to net result of exchange differences on translation of US$ and HK$ denominated trade receivables, cash and cash equivalents, borrowings and trade payables.

# 3. Financial Risk Management (Continued)

## 3.1 Financial risk factors (Continued)

### (a) Market risk (Continued)

#### (ii) Interest rate risk

The Group's major interest-bearing assets are cash and cash equivalents, time deposits and restricted cash. The maturity term of cash and cash equivalents, Time deposits and restricted cash are within 12 months or at fixed rates so there would be no significant interest rate risk for these financial assets.

The Group's major interest-bearing liabilities are borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest risk. As at 31 December 2018, if interest rates on bank borrowings had been 50 basis points higher/lower with all other variables held constant, post-tax loss would have been RMB 344,000 higher/lower (2017: post-tax profit would be RMB 337,000 lower/higher), mainly as a result of higher/lower interest expenses on these variable rate borrowings.

The Group has not used any financial instrument to hedge its exposure to interest rate risk.

#### (iii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group which are classified on the consolidated balance sheet either as financial assets at fair value through other comprehensive income (note 13) or financial assets at fair value through profit or loss (note 17). To manage its price risk arising from investments in equity securities, the Group diversified its portfolio.

The carrying amounts of financial assets at fair value through other comprehensive income and fair value gains on financial assets at fair value through profit or loss represent the Group's maximum exposure to price risk.

### (b) Credit risk

The carrying amount of cash and cash equivalents, time deposits, restricted cash and trade and other receivables represent the Group's maximum exposure to credit risk at the reporting date in relation to financial assets. The Group does not hold any collateral as security.

The cash and cash equivalents, time deposits and restricted cash of the Group are deposited in those financial institutions without significant credit risk, most of which are state-controlled commercial banks with no history of non-performance. Management does not expect any losses from non-performance by these finance institutions.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

# 3. Financial Risk Management (Continued)

## 3.1 Financial risk factors (Continued)

### (b) Credit risk (Continued)

For sales of goods to customers, the Group has policies in place to ensure credit terms are only granted to customers with good credit histories and credit evaluations were conducted on them periodically, taking into account their financial position, past experience and other factors. For other customers without credit terms granted, advances are received in most cases before delivery is made. As at 31 December 2018, 55% of trade receivables are due from three major customers of the Group (2017: 70%). Collections of outstanding receivable balances are closely monitored on an ongoing basis to minimise such credit risk.

For bills receivable, the Group will only accept selected bank acceptance bills issued by large or medium sized commercial banks in the PRC, and with maturity periods normally not more than 6 months. Management considers the default risk from these bank acceptance bills is low as they consider that PRC financial market is highly regulated and bankruptcy or default of PRC financial institutions should be rare.

Other receivables mainly include a loan to a related party, tender securities and interest receivable for time deposits. Management does not expect any loss arising from non-performance by these counterparties.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities; the Company aims to maintain flexibility by settlement of amounts due from subsidiaries.

The table below analyses the financial liabilities of the Group and the Company into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows of the financial liabilities.

| | Within 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|
| At 31 December 2018 | | | |
| Borrowings | **52,194** | **858** | **31,705** |
| Trade and other payables | **50,867** | **–** | **–** |
| At 31 December 2017 | | | |
| Borrowings | 31,900 | 51,129 | – |
| Trade and other payables | 65,425 | – | – |

# 3. Financial Risk Management (Continued)

## 3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets as shown on the consolidated balance sheet. As at 31 December 2018, the total borrowing for the Group was RMB81,543,000 (2017: RMB80,154,000) and the gearing ratio was 18.98% (2017: 15.55%).

## 3.3 Fair value estimation

### (a) Financial assets and liabilities

#### (i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Financial assets at FVOCI are equity investment in private companies and financial assets at fair value through profit or loss represent a put option as at 31 December 2018, both of them are measured at fair value in level 3.

The carrying amounts less impairment provision of trade and other receivables and the carrying amounts of trade and other payables approximate their fair values due to their short term nature.

During the year ended 31 December 2018, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

## 4. Critical Estimates and Judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Net realizable value of inventories

Net realizable value of inventories is based on the management's best estimations of selling price of the inventories in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are made with reference to the current market conditions and the historical experience of selling goods of similar nature. It could change significantly as a result of changes in market condition. Management reassesses these estimations at each balance sheet date.

### (b) Provision for impairment of trade and other receivables

Management determines the provision for impairment of receivables based on the credit history of the customers and the current market conditions. Although the provision is based on the management's best estimations, it could change significantly as a result of change in financial positions of customers and market conditions. Management reassesses the provision at each balance sheet date.

### (c) Income tax and deferred tax

The Group is subject to corporate income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxation and timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

### (d) Estimated impairment of Investments accounted for using the equity method and goodwill

Investments accounted for using the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of investments accounted for using the equity method and goodwill have been determined based on value-in use calculations, taking into account latest market information and past experience. These calculation require the use of judgements and estimates.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 5. Segment Information

The directors and chief executive officer of the Group are the chief operating decision-makers (the "CODM") of the Group. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM manages the Group's business from the perspective of different product lines of the Group, i.e. printers and other electronic products.

The CODM assesses the performances of the operating segments based on a measure of segment revenue and segment results. Segment results exclude other income, administrative expenses, research and development expenses, other gains – net, finance expenses – net and income tax expenses, which are centrally managed for the Group.

The segment revenue and results and the reconciliation with loss for the year ended 31 December 2018 are as follows:

| | Printers | Other electronic products | Total |
|---|---|---|---|
| **Revenue (from external customers)** (note (a)) | 326,591 | 3,030 | 329,621 |
| **Segment results** | 59,152 | 1,077 | 60,229 |
| Other income | | | 5,765 |
| Administrative expenses | | | (40,375) |
| Research and development expenses | | | (44,523) |
| Other gains – net | | | 440 |
| Finance expenses – net | | | (10,138) |
| Income tax expenses | | | (439) |
| Loss for the year | | | (29,041) |
| **Segment results include:** | | | |
| Share of losses of investments accounted for using the equity method (note 11) | (1,081) | – | (1,081) |
| Impairment of investment in associates (note 11) | (3,586) | – | (3,586) |
| Depreciation and amortization | (6,543) | (226) | (6,769) |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 5. Segment Information (Continued)

The segment revenue and results and the reconciliation with profit for the year ended 31 December 2017 are as follows:

| | Printers | Other electronic products | Total |
|---|---|---|---|
| **Revenue (from external customers)** (note (a)) | 367,482 | 5,706 | 373,188 |
| **Segment results** | 85,159 | 1,399 | 86,558 |
| Other income | | | 7,663 |
| Administrative expenses | | | (47,065) |
| Research and development expenses | | | (28,111) |
| Other gains – net | | | 1,523 |
| Finance expenses – net | | | (500) |
| Income tax expenses | | | (6,593) |
| Profit for the year | | | 13,475 |
| **Segment results include:** | | | |
| Share of losses of investments accounted for using the equity method (note 11) | (657) | – | (657) |
| Impairment of investment in an associate (note 11) | (6,443) | – | (6,443) |
| Depreciation and amortization | (5,649) | (322) | (5,971) |

(a) Revenues from external customers are for sales of goods. There are no inter-segment sales for the years ended 31 December 2018 and 2017.

(b) The Group is domiciled in the PRC. The revenue from external customers are as follows:

| | **2018** | 2017 |
|---|---|---|
| In the PRC | **296,665** | 345,440 |
| In other countries | **32,956** | 27,748 |
| | **329,621** | 373,188 |

(c) In 2018, approximately 13% of total revenue (2017: approximately 10%) were derived from a single external customer, which is attributable to the segment of printers.

(d) As at 31 December 2018, the Group's non-current assets were mainly located in the PRC.

## 6. Business combinations

During 2017 to 2018, the Group entered into multiple agreements for a business acquisition as follows:

On 5 December 2017, Jiangmen Kong Yue Jolimark Information Technology Limited ("Kong Yue Jolimark"), a subsidiary of the Group, entered into an agreement with Shenzhen Jinxian Corporation Management Consultant Limited ("Jinxian Consultant"), to jointly set up a company, Shenzhen Yingxing Information Technology Limited ("Shenzhen Yingxing"). Kong Yue Jolimark and Jinxian Consultant hold 65% and 35% shares of Shenzhen Yingxing respectively.

Thereafter, Kong Yue Jolimark and Shenzhen Yingxing have entered into agreements with Jinxian Consultant and Shenzhen Mingyang Information Technology Limited Company ("Shenzhen Mingyang") to acquire the customer base embedded in its Takeaway Order System for catering business. Both Jinxian Consultant and Shenzhen Mingyang are controlled by the same shareholder.

Details of the purchase consideration, the net assets and goodwill acquired are as follows:

| | RMB'000 |
|---|---|
| Purchase consideration | |
| **Cash paid** | **1,433** |

The net assets recognized as a result of the acquisition are as follows:

| | Fair Value RMB'000 |
|---|---|
| Property, plant and equipment (note 7) | 1,011 |
| Deferred tax assets (note 23) | (164) |
| Net identifiable assets acquired | 847 |
| Add: goodwill (note 9) | 586 |
| | 1,433 |

The goodwill is attributable to the acquired employee work force and the expected synergies. None of the goodwill is expected to be deductible for tax purposes.

Revenue of RMB130,000 and a loss of RMB1,195,000 incurred by Shenzhen Yingxing were included in the consolidated income statement since its acquisition on 26 January 2018.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 7. Property, Plant and Equipment

| | Buildings | Plant and machinery | Furniture and fixtures | Leasehold improvements | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | | |
| Cost | 59,690 | 157,162 | 16,097 | 3,143 | 12,543 | 248,635 |
| Accumulated depreciation | (19,529) | (129,235) | (14,617) | (2,475) | (10,557) | (176,413) |
| Net book amount | 40,161 | 27,927 | 1,480 | 668 | 1,986 | 72,222 |
| **Year ended 31 December 2017** | | | | | | |
| Opening net book amount | 43,097 | 40,599 | 2,164 | 976 | 2,652 | 89,488 |
| Additions | 3,177 | 9,719 | 826 | 85 | 140 | 13,947 |
| Disposals | – | (346) | (54) | – | – | (400) |
| Depreciation | (1,468) | (6,336) | (342) | (154) | (333) | (8,633) |
| Closing net book amount | 44,806 | 43,636 | 2,594 | 907 | 2,459 | 94,402 |
| **At 31 December 2017** | | | | | | |
| Cost | 62,867 | 166,535 | 16,869 | 3,228 | 12,683 | 262,182 |
| Accumulated depreciation | (18,061) | (122,899) | (14,275) | (2,321) | (10,224) | (167,780) |
| Net book amount | 44,806 | 43,636 | 2,594 | 907 | 2,459 | 94,402 |
| **Year ended 31 December 2018** | | | | | | |
| Opening net book amount | 44,806 | 43,636 | 2,594 | 907 | 2,459 | 94,402 |
| Acquisition of business operations (note 6) | – | – | 1,011 | – | – | 1,011 |
| Additions | 6,194 | 11,489 | 946 | 99 | – | 18,728 |
| Disposals | – | (290) | – | – | (50) | (340) |
| Depreciation | (1,467) | (7,373) | (808) | (167) | (346) | (10,161) |
| Closing net book amount | 49,533 | 47,462 | 3,743 | 839 | 2,063 | 103,640 |
| **At 31 December 2018** | | | | | | |
| Cost | 69,061 | 176,898 | 18,826 | 3,327 | 12,162 | 280,274 |
| Accumulated depreciation | (19,528) | (129,436) | (15,083) | (2,488) | (10,099) | (176,634) |
| Net book amount | 49,533 | 47,462 | 3,743 | 839 | 2,063 | 103,640 |

Depreciation was expensed in the following accounts in the statement of profit or loss:

| | 2018 | 2017 |
|---|---|---|
| Cost of goods sold | 7,610 | 6,294 |
| Administrative expenses | 2,376 | 2,108 |
| Selling and marketing expenses | 175 | 231 |
| | 10,161 | 8,633 |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 8. Land Use Rights

| | |
|---|---|
| **At 1 January 2017** | |
| Cost | 11,550 |
| Accumulated amortization | (2,962) |
| Net book amount | 8,588 |
| **Year ended 31 December 2017** | |
| Opening net book amount | 8,588 |
| Amortization | (289) |
| Closing net book amount | 8,299 |
| **At 31 December 2017** | |
| Cost | 11,550 |
| Accumulated amortization | (3,251) |
| Net book amount | 8,299 |
| **Year ended 31 December 2018** | |
| Opening net book amount | **8,299** |
| Amortization | **(289)** |
| Closing net book amount | **8,010** |
| **At 31 December 2018** | |
| Cost | **11,550** |
| Accumulated amortization | **(3,540)** |
| Net book amount | **8,010** |

The land is outside Hong Kong and held on leases of 40 years, with remaining useful life of 28 years (2017: 29 years).

Amortization of RMB289,000 (2017: RMB289,000) was included in the cost of goods sold in the consolidated income statement.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 9. Intangible Assets

| | Goodwill (Note (a)) | Proprietary technology | Total |
|---|---|---|---|
| **At 1 January 2017** | | | |
| Cost | 5,790 | 9,007 | 14,797 |
| Accumulated amortization | – | (2,116) | (2,116) |
| Net book amount | 5,790 | 6,891 | 12,681 |
| **Year ended 31 December 2017** | | | |
| Opening net book amount | 5,790 | 6,891 | 12,681 |
| Amortization | – | (770) | (770) |
| Closing net book amount | 5,790 | 6,121 | 11,911 |
| **At 31 December 2017** | | | |
| Cost | 5,790 | 9,007 | 14,797 |
| Accumulated amortization | – | (2,886) | (2,886) |
| Net book amount | 5,790 | 6,121 | 11,911 |
| **Year ended 31 December 2018** | | | |
| Opening net book amount | **5,790** | **6,121** | **11,911** |
| Acquisition of business operations (note 6) | **586** | **–** | **586** |
| Amortization | **–** | **(771)** | **(771)** |
| Closing net book amount | **6,376** | **5,350** | **11,726** |
| **At 31 December 2018** | | | |
| Cost | **6,376** | **8,871** | **15,247** |
| Accumulated amortization | **–** | **(3,521)** | **(3,521)** |
| Net book amount | **6,376** | **5,350** | **11,726** |

Amortization of RMB771,000 (2017: RMB770,000) is included in the cost of goods sold in the statement of profit or loss.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 9. Intangible Assets (Continued)

### (a) Impairment tests for goodwill

The goodwill of RMB5,742,000 arose in the acquisition of Shenzhen Coolwi Technology Company Limited ("Coolwi") in 2014. Another goodwill of RMB586,000 arose in the acquisition of a business from Shenzhen Mingyang in 2018 as detailed in note 6. For the purpose of impairment testing, the goodwill was allocated to Coolwi and Shenzhen Mingyang business respectively, which are cash generating units ("CGUs"). The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the revised financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below.

The key assumptions have been used for the analysis of value-in-use calculations in 2018 are as follows:

| | Yingmei.me O2O cloud printing | Catering business and e-commerce |
|---|---|---|
| Average annual growth rate of revenue (within the first five years) | 10.00%–4,723.69% | 18.81%–3,196.15% |
| Long term growth rate of revenue (after the first five years) | 2.23% | 2.23% |
| Pre-tax discount rate | 18.34% | 25.60% |

Average annual growth rate is based on management's expectations of market development. The long term growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the relevant operating segment.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 10. Investments in Subsidiaries

The following is a list of all the subsidiaries at 31 December 2018:

| Name | Place of incorporation | Principal activities and place of operations | Particulars of issued share capital/ paid-in capital | Attributable equity interest held |
|---|---|---|---|---|
| **Directly held by the Company** | | | | |
| Ying Mei Investment Limited | The British Virgin Islands (the "BVI") | Investment holdings/PRC | US$50,000 | 100% |
| Kong Yue Investment Limited | BVI | Investment holdings/PRC | US$50,000 | 100% |
| **Indirectly held by the Company** | | | | |
| Jolimark Technology Limited | Hong Kong | Investment holdings/PRC | HK$10,000 | 100% |
| Shanghai Jiangnuo Digital Technology | PRC | Wholesale of business equipment and tax control equipment/PRC | RMB20,000,000 | 95.25% |
| Jiangmen Kong Yue Jolimark Information Technology Limited | PRC | Manufacturing and sales of business equipment and tax control equipment/ PRC | HK$16,050,000 | 100% |
| Kong Yue Electronics & Information Industry (Xinhui) Limited ("Kongyue Information") | PRC | Manufacturing and sales of business equipment and tax control equipment/ PRC | US$25,660,000 | 100% |
| Xin Yue Logistics Limited | Hong Kong | Logistics agent/Hong Kong | HK$2 | 100% |
| Jiangmen Kong Yue Jolimark Tax Control Services Limited | PRC | Marketing of tax control equipment/PRC | RMB500,000 | 95% |
| Jolimark Printing Solutions (Hong Kong) Limited | Hong Kong | Wholesale of business equipment and tax control equipment/Hong Kong | HK$10,000 | 100% |
| Advanced Inkjet Systems Limited ("Advance Inkjet") | Taiwan | Research and development of the inkjet print heads | TWD3,700,000 | 100% |
| Coolwi | PRC | Research and development of the Internet of Things | RMB1,000,000 | 100% |
| Shenzhen Yingmei Kamo Internet Limited | PRC | Research and development of the internet of Things | RMB1,000,000 | 100% |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 10. Investments in Subsidiaries (Continued)

| Name | Place of incorporation | Principal activities and place of operations | Particulars of issued share capital/ paid-in capital | Attributable equity interest held |
|---|---|---|---|---|
| Gowin Technology International Holdings Limited ("Gowin") | Hong Kong | Research and development of the Internet technology and electronic products | HK$20,002 | 65% |
| Shenzhen Yingxing | PRC | Import and export service for electronic business | RMB3,000,000 | 65% |
| Gaosheng Hongying Technology (Shenzhen) Limited | PRC | Research and development of the Internet technology and electronic products | HK$600,000 | 65% |
| Jolimark Inkjet Technology Limited | Hong Kong | Research and development of the inkjet printers | HK$1,000,000 | 100% |

All the subsidiaries are limited liability companies.

## 11. Investments accounted for using the equity method

The amounts recognized in the consolidated balance sheet for associates are as follows:

| | 2018 | 2017 |
|---|---|---|
| Balance at 1 January | 14,870 | 18,570 |
| Addition | 537 | 4,000 |
| Disposal of an associate | (698) | – |
| Dividend received from an associate | (910) | (600) |
| Share of losses – net | (1,081) | (657) |
| Impairment charge (note (a)) | (3,586) | (6,443) |
| Balance at 31 December | 9,132 | 14,870 |

(a) The amount mainly represents the impairment charged on the investment in Wuhan Hong Ruida Information Technology Limited Company ("Hong Ruida"). During the year, the Group performed an impairment assessment of its investment in Hong Ruida which cannot meet its target of operation. Impairment charge of RMB3,486,000 has been made against the carrying amount of RMB3,486,000 in Hong Ruida.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 12. Available-for-sale Financial Assets

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Balance at 1 January | **2,556** | 3,349 |
| Reclassified for changes in accounting policies (note 2.2) | **(2,556)** | – |
| Impairment charge | **–** | (793) |
| Balance at 31 December | **–** | 2,556 |

## 13. Financial assets at fair value through other comprehensive income

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Balance at 1 January | **–** | – |
| Reclassified for changes in accounting policy (note 2.2) | **2,556** | – |
| Additions (note (b)) | **2,528** | – |
| Fair value gains recognized | **1,130** | – |
| Balance at 31 December | **6,214** | – |

(a) As at 31 December 2018 and 2017, the group held certain equity investments for medium to long-term. Note 2.2 explains the change of accounting policy and the reclassification of certain equity investments from available-for-sale to financial assets at fair value through other comprehensive income.

(b) During the year, the Group acquired 4% equity interests in a private company in the PRC, Hunan Chengmeng Educational and Cultural Development Co., Ltd. ("Hunan Chengmeng") for RMB2,000,000, and 1.76% equity interests in another private company in the PRC, Guangdong Aerospace Information Aisino Technology Co., Ltd. ("Guangdong Aerospace") for RMB528,000. Hunan Chengmeng is a private training institution which mainly provides the services of college entrance examination art training, children education and study abroad consultation. The principal activities of Guangdong Aerospace are research and development of electronic, communication and automatic control technology, software development.

(c) The fair values are based on net assets per share which are within level 3 of fair value hierarchy.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 14. Financial Instruments by Categories

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| **Financial assets** | | |
| Financial assets at amortised cost | | |
| Trade and other receivables, excluding prepayments (note 16) | **28,475** | 48,447 |
| Restricted cash (note 19) | **7,254** | 58,373 |
| Cash and cash equivalents (note 18) | **95,388** | 171,056 |
| Financial assets at FVOCI (note 13) | **6,214** | – |
| Available-for-sale financial assets (note 12) | **–** | 2,556 |
| Financial assets at fair value through profit or loss (note 17) | **463** | 20,092 |
| | **137,794** | 300,524 |
| **Financial liabilities** | | |
| Liabilities at amortised cost | | |
| Trade and other payables | **50,867** | 46,096 |
| Borrowings (note 22) | **81,543** | 80,514 |
| | **132,410** | 126,610 |

The group's exposure to various risks associated with the financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

## 15. Inventories

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Raw materials | **57,849** | 51,721 |
| Work in progress | **2,421** | 3,663 |
| Finished goods | **31,606** | 24,411 |
| | **91,876** | 79,795 |

The cost of inventories recognized in the statement of profit or loss amounted to RMB228,275,000 (2017: RMB245,594,000).

During the year, the write-down of inventories amounted to RMB4,384,000 (2017: RMB596,000) and has been recognized as cost of goods sold in the statement of profit or loss.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 16. Trade and Other Receivables

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| **Non-current** | | |
| Other receivables | | |
| – Third parties | **500** | – |
| – Related parties (note 35) | **2,658** | 1,781 |
| | **3,158** | 1,781 |
| **Current** | | |
| Trade receivables | | |
| – Third parties (note (a)) | **8,150** | 16,914 |
| Less: provision for impairment of trade receivables | **–** | – |
| Trade receivables – net | **8,150** | 16,914 |
| Bills receivable (note (b)) | **6,494** | 16,682 |
| Prepayments to third parties | **2,073** | 3,331 |
| Other receivables | | |
| – Third parties | **11,314** | 11,281 |
| – Related parties (note 35) | **1,672** | 2,609 |
| Less: provision for impairment of other receivables | **(2,313)** | (820) |
| | **27,390** | 49,997 |
| | **30,548** | 51,778 |

(a) The Group's sales to customers are generally granted with credit terms ranging from 30 to 180 days or extended as considered appropriate by the directors of the Company. As at 31 December 2018, the ageing analysis of the trade receivables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Less than 30 days | **5,249** | 9,786 |
| 31–90 days | **1,424** | 1,181 |
| 91–180 days | **325** | 4,585 |
| 181–365 days | **52** | 621 |
| Over 365 days | **1,100** | 741 |
| | **8,150** | 16,914 |

The credit quality of trade receivables within credit limit are assessed by reference to historical information about counterparty default rates. As at 31 December 2018, these trade receivables were related to major customers of the Group and without indication of default in settlement.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 16. Trade and Other Receivables (Continued)

(a) (Continued)

As at 31 December 2018, trade receivables of RMB1,152,000 were past due but not impaired (31 December 2017: RMB1,362,000). The ageing analysis of these trade receivables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| **Past due but not impaired:** | | |
| 181–365 days | **52** | 621 |
| Over 365 days | **1,100** | 741 |
| | **1,152** | 1,362 |

Trade receivables past due but not impaired relate to a number of customers with no recent history of default.

(b) As at 31 December 2018 and 2017, bills receivable represent bank acceptance bills.

(c) The carrying amounts of trade and other receivables, excluding prepayments, are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| RMB | **27,448** | 47,550 |
| US$ | **620** | 751 |
| HK$ | **181** | 146 |
| Other currencies | **226** | – |
| | **28,475** | 48,447 |

(d) The maximum exposure to credit risk is the carrying amounts of trade and other receivables. The Group does not hold any collateral as security.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 17. Financial Assets at Fair Value Through Profit or Loss

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| A put option (note (a)) | **463** | – |
| A wealth management product (note (b)) | **–** | 20,092 |
| | **463** | 20,092 |

(a) The Group made an investment in a limited partnership during the year ended 31 December 2018. According to certain terms in the investment agreement, the Group has an option to sell all its equity interests of this investment to one of the investors' related party. The put option is exercisable on or after three years from the date of this investment, at exercise prices that are equivalent to the total capital contributions in the limited partnership made by the Group plus a return of 10% per annum.

The put option has been classified as financial assets at fair value through profit or loss and carried at fair value. The fair value of the put option was calculated using the Black-Scholes put option model.

(b) The balance at 31 December 2017 represented the deposit in a commercial bank in the PRC with a guaranteed capital protection and maturity of 6 months, which was collected during the year ended 31 December 2018.

Changes of financial assets at fair value through profit or loss are presented within "operating activities" as part of changes in working capital in the consolidated statement of cash flows (note 33).

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other gains – net" in the consolidated income statement (note 28).

The fair value is within level 3 of fair value hierarchy.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 18. Cash and Cash Equivalents

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Cash at bank and in hand | 95,388 | 171,056 |

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| Denominated in: | | |
| RMB | 83,238 | 156,850 |
| US$ | 8,198 | 7,664 |
| HK$ | 3,708 | 5,291 |
| TWD | 157 | 1,162 |
| Other currencies | 87 | 89 |
| | 95,388 | 171,056 |

The maximum exposure to credit risk is the carrying amounts of cash and cash equivalents.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

## 19. Restricted Cash

| | As at 31 December | |
|---|---|---|
| | 2018 | 2017 |
| **Non-current** | | |
| Guarantee deposits for loans (notes (a) and (b)) | 7,000 | 57,960 |
| Other guarantee deposit | – | 160 |
| | 7,000 | 58,120 |
| **Current** | | |
| Other guarantee deposit | 254 | 253 |
| | 7,254 | 58,373 |

(a) The amount of RMB7,000,000 represents cash deposited in a PRC bank as security for the Group's bank borrowings of HK$36,000,000 (equivalent to RMB31,543,000) (note 22).

(b) During the year, the Group's bank borrowings of HK$60,000,000 (equivalent to RMB50,154,000) were repaid. Thus, the guarantee deposits of RMB57,960,000 were released.

## 20. Share Capital and Premium

| | Number of ordinary shares of HK$0.01 each | Nominal value of ordinary shares RMB'000 | Equivalent nominal value of ordinary shares RMB'000 | Share premium RMB'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Issued and fully paid** | | | | | |
| Balance at 1 January 2017 | 638,204,000 | 6,382 | 6,602 | 17,976 | 24,578 |
| Exercise of share options (note 21 (iii)) | 859,500 | 9 | 8 | 1,244 | 1,252 |
| Placing of new shares | 18,000,000 | 180 | 159 | 25,308 | 25,467 |
| Balance at 31 December 2017 | 657,063,500 | 6,571 | 6,769 | 44,528 | 51,297 |
| Balance at 1 January 2018 | **657,063,500** | **6,571** | **6,769** | **44,528** | **51,297** |
| Cancellation of shares (note (a)) | **(35,850,000)** | **(359)** | **(294)** | **(25,689)** | **(25,983)** |
| Dividends (note 32) | **–** | **–** | **–** | **(12,500)** | **(12,500)** |
| Balance at 31 December 2018 | **621,213,500** | **6,212** | **6,475** | **6,339** | **12,814** |

(a) During the year, the Company repurchased 44,182,000 of its own shares of which 35,850,000 shares were subsequently cancelled. The buy-back and cancellation were authorised by shareholders at the annual general meeting held in May 2017 and approved by the Board of Directors in November 2017. The payment was made out of the company's distributable profits with no reduction of capital.

The shares were acquired at an average price of HK$0.805 per share, with prices ranging from HK$0.445 to HK$1.200. The total amount of HK$35,563,000 (equivalent to RMB29,275,000) paid to acquire the shares has been deducted from retained earnings within shareholders' equity. Thereafter, 35,850,000 shares were cancelled for an amount of HK$31,814,000(equivalent to RMB25,983,000) and has been deducted from share capital and share premium.

As of 31 December 2018, there were 8,332,000 treasury shares for an amount of HK$3,749,000 (equivalent to RMB3,292,000) in the retained earnings.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 21. Other Reserves

| | Merger reserve (note (i)) | Statutory reserve fund and enterprise expansion fund (note (ii)) | Share option reserve (note (iii)) | Capital reserve | Financial assets at FVOCI | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | 136,904 | 99,049 | 10,480 | (520) | – | 245,913 |
| Share options granted to employees | – | – | 3,914 | – | – | 3,914 |
| Share options forfeited during the year | – | – | (5) | – | – | (5) |
| Exercise of share options | – | – | (283) | – | – | (283) |
| Transfer from retained earnings | – | 3,104 | – | – | – | 3,104 |
| **Balance at 31 December 2017** | 136,904 | 102,153 | 14,106 | (520) | – | 252,643 |
| **Balance at 1 January 2018** | **136,904** | **102,153** | **14,106** | **(520)** | **–** | **252,643** |
| Share options granted to employees | **–** | **–** | **2,821** | **–** | **–** | **2,821** |
| Share options forfeited during the year | **–** | **–** | **(45)** | **–** | **–** | **(45)** |
| Revaluation – gross | **–** | **–** | **–** | **–** | **1,130** | **1,130** |
| Deferred tax for revaluation | **–** | **–** | **–** | **–** | **(311)** | **(311)** |
| NCI share in revaluation – gross | **–** | **–** | **–** | **–** | **(53)** | **(53)** |
| **Balance at 31 December 2018** | **136,904** | **102,153** | **16,882** | **(520)** | **766** | **256,185** |

(i) Merger reserve of the Group represents the difference between the share capital of subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange pursuant to the reorganization undertaken by the Group in preparation of the listing of the shares of the Company on the Stock Exchange which has been set out in the Prospectus of the Company dated 20 June 2005.

(ii) The main business of the Group is conducted by Kongyue Information, which is a foreign investment company based in Xinhui City of the PRC. In accordance with relevant rules and regulations applicable to foreign investment company in the PRC, Kongyue Information is required to make appropriations from net profit, after offsetting accumulated losses from prior years, to Statutory Reserve Fund and Enterprise Expansion Fund before it distributes profit to its shareholders. The appropriation to Statutory Reserve Fund should be 10% of its profit after taxation calculated under PRC accounting rules and regulations, until the accumulated total of the fund reaches 50% of the registered share capital of the company and appropriation to Enterprise Expansion Fund is solely determined by the board of directors of the company. The Statutory Reserve Fund can be used to offset accumulated losses brought forward from prior years or, upon approval by the relevant authority to increase the share capital of the company, the Enterprise Expansion Fund can only be used to increase share capital of the company upon approval by the relevant authority. Since Kongyue Information incurred losses during the year ended 31 December 2018, no Statutory Reserve Fund and Enterprise Expansion Fund were made.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 21. Other Reserves (Continued)

### (iii) Share options reserve

The following tables disclose details of the Company's share options held by the employees and movements in such holding during the year.

**For the year ended 31 December 2018:**

| Date of grant | Exercise price per share (HK$) | Vesting period | Exercisable period | Number of share options: Outstanding at 1 January 2018 | Granted during the year | Exercised during the year | Forfeited during the year (note (b)) | Outstanding at 31 December 2018 |
|---|---|---|---|---|---|---|---|---|
| 10 December 2013 (note (a)) | 1.18 | 10 December 2013 to 10 December 2017 | 10 December 2014 to 10 December 2019 | 2,123,500 | – | – | – | 2,123,500 |
| 17 December 2014 (note (a)) | 1.70 | 17 December 2014 to 17 December 2018 | 17 December 2015 to 17 December 2020 | 17,755,000 | – | – | (2,425,000) | 15,330,000 |
| 15 May 2015 (note (a)) | 2.17 | 15 May 2015 to 15 May 2019 | 15 May 2016 to 15 May 2021 | 12,620,000 | – | – | (100,000) | 12,520,000 |
| | | | | 32,498,500 | – | – | (2,525,000) | 29,973,500 |
| | | Exercisable at the end of the year | | – | – | – | – | 26,843,500 |
| | | Weighted average exercise price | | HKD1.85 | – | – | HKD1.72 | HKD1.86 |

(a) The first 25% of the option can be exercised at any time on and after the first anniversary of the grant of the option. The next 25% of the option can be exercised at any time commencing from the second anniversary of the grant of the option. The third 25% of the option can be exercised at any time commencing from the third anniversary of the grant of the option. The fourth 25% of the option can be exercised at any time commencing from the fourth anniversary of the grant of the option.

(b) During the year, 2,525,000 share options were forfeited and RMB45,000 was reversed in the consolidated income statement and the other reserve account.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 21. Other Reserves (Continued)

### (iii) Share options reserve (Continued)

For the year ended 31 December 2017:

| Date of grant | Exercise price per share (HK$) | Vesting period | Exercisable period | Number of share options: Outstanding at 1 January 2017 | Granted during the year | Exercised during the year | Forfeited during the year (note (b)) | Outstanding at 31 December 2017 |
|---|---|---|---|---|---|---|---|---|
| 22 July 2011 (note (a)) | 1.00 | 22 July 2011 to 22 July 2015 | 22 July 2012 to 22 July 2017 | 65,000 | – | (65,000) | – | – |
| 10 December 2013 (note (a)) | 1.18 | 10 December 2013 to 10 December 2017 | 10 December 2014 to 10 December 2019 | 2,780,500 | – | (657,000) | – | 2,123,500 |
| 17 December 2014 (note (a)) | 1.70 | 17 December 2014 to 17 December 2018 | 17 December 2015 to 17 December 2020 | 18,192,500 | – | (137,500) | (300,000) | 17,755,000 |
| 15 May 2015 (note (a)) | 2.17 | 15 May 2015 to 15 May 2019 | 15 May 2016 to 15 May 2021 | 12,620,000 | – | – | – | 12,620,000 |
| | | | | 33,658,000 | – | (859,500) | (300,000) | 32,498,500 |
| | | Exercisable at the end of the year | | – | – | – | – | 21,058,500 |
| | | Weighted average exercise price | | HKD1.83 | – | HKD1.25 | HKD1.70 | HKD1.85 |

(a) The first 25% of the option can be exercised at any time on and after the first anniversary of the grant of the option. The next 25% of the option can be exercised at any time commencing from the second anniversary of the grant of the option. The third 25% of the option can be exercised at any time commencing from the third anniversary of the grant of the option. The fourth 25% of the option can be exercised at any time commencing from the fourth anniversary of the grant of the option.

(b) During the year, 300,000 share options were forfeited and RMB5,000 was reversed in the consolidated income statement and the other reserve account.

Share options were granted to certain employees. The exercise price of the granted options approximates to the average of the closing prices for the five business days immediately before the grant date.

Out of the 29,973,500 outstanding options (2017: 32,498,500), 26,843,500 options (2017: 21,085,500) were exercisable as at 31 December 2018. During the year, no shares (2017: 859,500) were issued since no share options were exercised.

The respective weighted average share price at the time of exercise was HK$1.85 (2017: HK$1.83) per share.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 22. Borrowings

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| **Non-current** | | |
| Secured bank borrowing (note (a)) | **31,543** | 50,154 |
| **Current** | | |
| Unsecured bank borrowing | **50,000** | 30,000 |
| | **81,543** | 80,154 |

(a) Amount represents the bank borrowing of HK$36,000,000 (equivalent to RMB31,543,000), which bears an interest of 1.65% per annum over one-month HIBOR, repayable within three years and is secured by the Group's bank deposit of RMB7,000,000 (note 19).

(b) Interest expenses of the borrowings for the year amounted to RMB5,062,000 (2017: RMB4,016,000), which have been recognized as finance costs in the income statement.

The fair values of the borrowings equal their carrying amount, as the impact of discounting is not significant.

The Group has the following undrawn borrowing facilities:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| – expiring within one year | **43,504** | 93,436 |

## 23. Deferred Income Tax

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Deferred income tax asset to be recovered within 12 months | **(4,349)** | (2,190) |
| Deferred income liabilities to be payable within 12 months | **475** | 667 |
| Deferred tax assets – net | **(3,874)** | (1,523) |

The gross movement on the deferred income tax is as follows:

| | **2018** | 2017 |
|---|---|---|
| Balance at 1 January | **(1,523)** | (1,609) |
| Directly to equity from acquisition of business operations (note 6) | **164** | – |
| (Credited)/charged to the consolidated income statement | **(2,826)** | 86 |
| Charge to other comprehensive income | **311** | – |
| Balance at 31 December | **(3,874)** | (1,523) |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 23. Deferred Income Tax (Continued)

The movement in deferred income tax liabilities and assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| Deferred income tax liabilities | Temporary difference between carrying amounts and tax base of inventories | Changes in fair value of financial assets at FVOCI over the tax bases | Valuation appreciation | Total |
|---|---|---|---|---|
| At 1 January 2017 | 1,073 | – | – | 1,073 |
| Credited to the consolidated income statement | (406) | – | – | (406) |
| At 31 December 2017 | 667 | – | – | 667 |
| At 1 January 2018 | **667** | **–** | **–** | **667** |
| Directly to equity from acquisition of business operations (note 6) | **–** | **–** | **164** | **164** |
| Credited to the consolidated income statement | **(667)** | **–** | **–** | **(667)** |
| Charge to other comprehensive income | **–** | **311** | **–** | **311** |
| At 31 December 2018 | **–** | **311** | **164** | **475** |

| Deferred income tax assets | Temporary difference between carrying amounts and tax base of inventories | Tax losses | Total |
|---|---|---|---|
| At 1 January 2017 | – | (2,682) | (2,682) |
| Charged to the consolidated income statement | – | 492 | 492 |
| At 31 December 2017 | – | (2,190) | (2,190) |
| At 1 January 2018 | **–** | **(2,190)** | **(2,190)** |
| Credited to the consolidated income statement | **(41)** | **(2,118)** | **(2,159)** |
| At 31 December 2018 | **(41)** | **(4,308)** | **(4,349)** |

Deferred income tax assets are recognized for tax loss carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. As at 31 December 2018, the tax losses of certain group companies amounting to RMB2,804,000 and RMB15,787,000 will be expired within 2 years and from 2 to 5 years, respectively (31 December 2017: nil and RMB12,109,000).

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 24. Trade and Other Payables

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Trade payables | | |
| – Third parties | **26,324** | 27,163 |
| – Related parties (note 35) | **1,864** | 2,381 |
| | **28,188** | 29,544 |
| Other payables to third parties | **32,913** | 42,183 |
| Dividends payable | **975** | 975 |
| Advances from customers | **–** | 13,615 |
| | **62,076** | 86,317 |

At 31 December 2018, the ageing analysis of the trade payables based on invoice date, including amounts due to related parties of trading nature, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Less than 30 days | **19,002** | 22,644 |
| 31–90 days | **7,448** | 4,390 |
| 91–180 days | **612** | 545 |
| 181–365 days | **141** | 547 |
| Over 365 days | **985** | 1,418 |
| | **28,188** | 29,544 |

The carrying amounts of trade and other payables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| RMB | **54,552** | 78,778 |
| US$ | **3,150** | 4,595 |
| HK$ | **2,442** | 1,530 |
| TWD | **1,187** | 1,150 |
| Other currencies | **745** | 264 |
| | **62,076** | 86,317 |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 25. Other Income

| | 2018 | 2017 |
|---|---|---|
| Interest income of bank deposits | 5,442 | 5,792 |
| Incentive subsidy | 170 | 1,368 |
| Repairs and maintenance service income | 153 | 503 |
| | 5,765 | 7,663 |

## 26. Expenses by Nature

Expenses included in cost of goods sold, selling and marketing expenses and administrative expenses are analyzed as follows:

| | 2018 | 2017 |
|---|---|---|
| Depreciation of property, plant and equipment and amortization of land use rights and intangible assets (notes 7, 8 and 9) | 11,221 | 9,692 |
| Raw materials and consumables recognized in cost of goods sold and expenses | 198,486 | 212,872 |
| Employee benefit expenses (note 27) | 86,809 | 75,335 |
| Operating leases | 4,346 | 3,461 |
| Transportation expenses | 6,601 | 6,674 |
| Auditor's remuneration | 1,597 | 1,754 |
| – Audit services | 1,577 | 1,664 |
| – Non-audit services | 20 | 90 |
| Advertising and promotion fees | 6,094 | 6,373 |
| Allowance for doubtful debts | 1,593 | – |
| Others | 32,876 | 38,545 |
| | 349,623 | 354,706 |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 27. Employee Benefit Expenses

| | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 71,753 | 58,621 |
| Share options granted to employees (note 21) | 2,776 | 3,914 |
| Staff welfare and insurance | 7,246 | 7,738 |
| Pension costs – defined contribution plans | 5,034 | 5,062 |
| | 86,809 | 75,335 |

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2017: two) directors whose emoluments are reflected in the analysis in benefits and interests of directors (note 38). The emoluments payable to the remaining three (2017: three) out of the five highest paid individuals during the year are as follows:

| | 2018 | 2017 |
|---|---|---|
| Salaries and other benefits | 2,197 | 2,336 |
| Retirement scheme contributions | 18 | 18 |
| | 2,215 | 2,354 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2018 | 2017 |
| Emolument bands (in HK dollar) | | |
| HK$0 – HK$1,000,000 | 3 | 3 |

## 28. Other Gains – Net

| | 2018 | 2017 |
|---|---|---|
| Gains on financial assets at fair value through profit or loss – net | 747 | 92 |
| Foreign exchange (losses)/gains – net | (56) | 1,761 |
| Losses from disposal of machinery and equipment | (62) | (398) |
| Impairment of available for sale financial assets | – | (793) |
| Others | (189) | 861 |
| | 440 | 1,523 |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 29. Finance Expenses – Net

| | 2018 | 2017 |
|---|---|---|
| Interest expenses on bank borrowings | **(5,062)** | (4,016) |
| Interest expenses on borrowings from a non-controlling shareholder | **(192)** | – |
| Exchange (losses)/gains on bank borrowings | **(4,884)** | 3,516 |
| | **(10,138)** | (500) |

## 30. Income Tax Expenses

| | 2018 | 2017 |
|---|---|---|
| Current income tax expenses | | |
| – Hong Kong profits tax (note (a)) | **–** | – |
| – PRC corporate income tax (note (b)) | **(653)** | (3,757) |
| – PRC dividend withholding tax (note (c)) | **(2,612)** | (2,750) |
| | **(3,265)** | (6,507) |
| Deferred income tax | **2,826** | (86) |
| | **(439)** | (6,593) |

The income tax on the Group's profit before taxation differs from the theoretical amount that would arise using the enacted tax rate of the home countries of the Group entities as follows:

| | 2018 | 2017 |
|---|---|---|
| (Loss)/profit before tax | **(28,602)** | 20,068 |
| Tax calculated at tax rates applicable to (losses)/profits in the respective entities of the Group | **3,035** | (3,816) |
| Tax losses for which no deferred income tax asset was recognized | **(672)** | – |
| Additional deductible allowance for research and development expenses | **1,468** | 1,138 |
| Expenses not deductible for tax purposes | **(1,008)** | (1,170) |
| Tax effect of share of profit or loss of associates and impairment charges on investment in associates | **(700)** | 5 |
| Utilization of previously unrecognized tax losses | **50** | – |
| PRC withholding income tax | **(2,612)** | (2,750) |
| | **(439)** | (6,593) |

## 30. Income Tax Expenses (Continued)

### (a) Hong Kong profits tax

Hong Kong profits tax has not been provided for as the Group did not have any assessable profits during the year ended 31 December 2018 (2017: nil).

### (b) PRC corporate income tax

The corporate income tax (the "CIT") of Kong Yue Electronics & Information Industry (Xinhui) Limited ("Kongyue Information") is provided for on the basis of its profit reported in the PRC statutory financial statements, adjusted for income and expenses items, which are not assessable or deductible for income tax purpose. Pursuant to the PRC Corporate Income Tax Law (the "CIT Law"), the CIT rate is 25%. As Kongyue Information has been qualified as High and New Technology Enterprises ("HNTE") for three years from 2017 to 2020, it enjoys a preferential CIT rate at 15% for the year ended 31 December 2018 (2017: 15%). The effective CIT rate of other Group entities in the PRC is 25% (2017: 25%).

### (c) PRC dividend withholding tax

Pursuant to the Detailed Implementation Regulations for implementation of the Corporate Income Tax Law issued on 6 December 2007, dividends distributed out from the profits generated by the PRC companies after 1 January 2008 to their foreign investors shall be subject to this withholding income tax of 10%, a lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong.

During the year, the Group incurred withholding income tax of RMB2,612,000 (2017: RMB2,750,000). No deferred income tax has been provided for PRC dividend withholding tax as at 31 December 2018.

### (d) Overseas income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2013 Revision) of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. Subsidiaries of the Company in the BVI are incorporated under the International Business Companies Act of the BVI and, accordingly, are exempted from income tax in the BVI.

## 31. Earnings Per Share

### – Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2018** | 2017 |
|---|---|---|
| (Loss)/profit attributable to the shareholders of the Company (RMB'000) | **(28,274)** | 13,853 |
| Weighted average number of ordinary shares in issue (shares in thousands) | **632,260** | 655,749 |
| Basic (loss)/earnings per share (RMB per share) | **(0.045)** | 0.021 |

### – Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding on an assumption of conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company for the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | **2018** | 2017 |
|---|---|---|
| (Loss)/profit attributable to the shareholders of the Company (RMB'000) | **(28,274)** | 13,853 |
| Weighted average number of ordinary shares in issue (shares in thousands) | **632,260** | 655,749 |
| Adjustments for share options (shares in thousands) | **–** | 296 |
| Weighted average number of ordinary shares for diluted earnings per share (shares in thousands) | **632,260** | 656,045 |
| Diluted (loss)/earnings per share (RMB per share) | **(0.045)** | 0.021 |

## 32. Dividends

| | **2018** | 2017 |
|---|---|---|
| Proposed final dividend (note (a)) | **–** | 12,500 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.019 (2017: RMB0.033) per ordinary share (note (b)) | **12,500** | 22,000 |

(a) No dividend was recommended by the Board of directors for the year ended 31 December 2018 (for the year ended 31 December 2017: RMB 0.019 per ordinary share totalling approximately RMB12,500,000).

(b) A final dividend in respect of 2017 of RMB0.019 per ordinary share totalling approximately RMB12,500,000, which was paid in 2018, was declared at the board meeting on 22 March 2018. The final dividend was distributed out of the share premium of the Company.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 33. Cash flow information

### (a) Cash Generated from Operating Activities

| | 2018 | 2017 |
|---|---|---|
| (Loss)/profit for the year | (29,041) | 13,475 |
| Adjustments for: | | |
| – Income tax expenses | 439 | 6,593 |
| – Depreciation of property, plant and equipment | 10,161 | 8,633 |
| – Amortization of land use rights | 289 | 289 |
| – Amortization of intangible assets | 771 | 770 |
| – Amortization of other assets | 576 | – |
| – Losses from disposal of property, plant and Equipment | 62 | 398 |
| – Interest income | (5,442) | (5,792) |
| – Share options granted to employees | 2,821 | 3,914 |
| – Share options forfeited during the year | (45) | (5) |
| – Gains on profit from financial assets at fair value through profit or losses | (747) | (92) |
| – Finance expenses – net | 10,138 | 500 |
| – Exchange (gains)/losses on cash and cash equivalents | (332) | 1,345 |
| – (Gains)/losses on fair value adjustment to receivables due from an associate | (85) | 219 |
| – Losses from disposal of an associate | 98 | – |
| – Impairment of available for sale financial assets | – | 793 |
| – Impairment of investment in associates | 3,586 | 6,443 |
| – Share of losses of investments accounted for using the equity method | 1,081 | 657 |
| | (5,670) | 38,140 |
| Changes in working capital: | | |
| – Inventories | (12,081) | 9,318 |
| – Trade and other receivables | 20,392 | (11,756) |
| – Restricted cash | 159 | (142) |
| – Contract liabilities | 4,010 | – |
| – Trade and other payables | (23,635) | (13,047) |
| Cash (used in)/generated from operations | (16,825) | 22,513 |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 33. Cash flow information (Continued)

### (b) Reconciliation of liabilities arising from financing activities

| | Liabilities from financing activities | | |
|---|---|---|---|
| | **Borrowing due within 1 year** (note 22) | **Borrowing due after 1 year** (note 22) | **Total** |
| **Liabilities arising from financing activities as at 1 January 2018** | (30,000) | (50,154) | (80,154) |
| Cash flows | (20,000) | 23,495 | 3,495 |
| Foreign exchange adjustments | – | (4,884) | (4,884) |
| **Liabilities arising from financing activities as at 31 December 2018** | (50,000) | (31,543) | (81,543) |

## 34. Commitments

### (a) Capital commitments

The future aggregate minimum payments of property, plant and equipment are as follows:

| | **2018** | 2017 |
|---|---|---|
| No later than 1 year | **4,863** | 2,333 |
| Later than 1 year and not later than 5 years | **–** | 36 |
| | **4,863** | 2,369 |

### (b) Operating lease commitments

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

| | **2018** | 2017 |
|---|---|---|
| No later than 1 year | **1,756** | 1,177 |
| Later than 1 year and not later than 5 years | **76** | 704 |
| | **1,832** | 1,881 |

## 35. Related-party Transactions

Mr. Au controls 100% of Au Pak Yin, Tai Noi Kit Family Holdings Limited and in turn control 100% of Kytronics Growth Limited and Kytronics. Mr. Au controls the 71.37% shareholdings of Kytronics in the Company.

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties.

### (a) Name and relationship with related parties

| Name | Relationship |
|---|---|
| Au Family | Beneficial owner of the Company including Mr. Au Pak Yin, Ms. Tai Noi Kit, Mr. Au Kwok Lun. Mr. Ou Guo Liang and Ms. Ou Ri Ai |
| Close Au Family Members | Close family members of Au Family |
| Guangdong Kong Yue Precision Industry Limited ("Guangdong Precision") | Company controlled by Close Au Family Members |
| Jiangmen Kong Yue Information Products Import Export Limited ("KY Import/Export") | Company controlled by Close Au Family Members |
| Palace International Hotel ("Palace") | Company controlled by Close Au Family Members |
| Kong Yue Industrial Park (Xinhui) Limited ("Industrial Park") | Company beneficially owned by Mr. Au Pak Yin and Close Au Family Members |
| Guangdong Kong Yue Zhongding Rubber Component Limited ("Guangdong Zhongding") | Company under significant influence of Au Family |
| Hong Ruida | An associate of the Group |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 35. Related-party Transactions (Continued)

### (b) The following significant transactions were carried out with related parties:

| | | 2018 | 2017 |
|---|---|---|---|
| (i) | **Purchase of goods and services** (note (b-1)) | | |
| | – Guangdong Precision | 15,307 | 17,153 |
| | – Guangdong Zhongding | 2,668 | 3,334 |
| | – Palace | 1,046 | 1,004 |
| | | 19,021 | 21,491 |
| (ii) | **Handling fees** (note (b-2)) | | |
| | – KY Import/Export | – | 85 |
| (iii) | **Acquisition of fixed assets** | | |
| | – Hong Ruida | 642 | – |
| (iv) | **The remuneration of executive directors of the Company and other members of key management of the Group during the year was as follows:** | | |
| | – Salary and other short-term employee benefits | 5,772 | 5,498 |
| | – Share options | 239 | 337 |
| | – Retirement scheme contribution | 61 | 62 |
| | | 6,072 | 5,897 |
| (v) | **Year-end balances with related parties** (note (b-3)) | | |
| | **Trade and other receivables from related parties** (note 16) | | |
| | – Industrial Park | 79 | 2,609 |
| | – Hong Ruida (note (b-4)) | 2,658 | 1,781 |
| | | 2,737 | 4,390 |
| | **Trade payables to related parties** (note 24) | | |
| | – Guangdong Precision | 1,365 | 1,738 |
| | – Guangdong Zhongding | 499 | 643 |
| | | 1,864 | 2,381 |

Notes:

(b-1) The purchase transactions are negotiated with related parties in a normal course of business.

(b-2) The handling fees charged by KY Import/Export in relation to import of materials of the Group are approximately 1% of purchase price of the materials. The handling fees charged by KY Import/Export in relation to export products are equivalent to 1% of the full contract price of the products. During the year ended 31 December 2018, the Group ceased to conduct business through KY Import/Export, and the handling fees charged by KY Import/Export in relation to import and export of materials amounted to nil (31 December 2017: RMB64,000 and RMB21,000, respectively).

(b-3) All balances except other receivables from Hong Ruida are unsecured and interest free; balances due from Industrial Park and due to KY Import/Export are repayable on demand, balances due to other related parties are repayable within 45 days.

(b-4) The balance represents a loan to Hong Ruida in 2017, which is interest free and repayable in 2020. Besides, the Group has prepaid RMB792,000 to Hong Ruida for a business operations related to interactive video system.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 36. Events after the reporting period

Of the 8,332,000 shares repurchased on 7 December 2018, the repurchased shares were cancelled on 9 January 2019.

## 37. Balance Sheet and Reserve Movement of the Company

### Balance sheet of the Company

| | Note | As at 31 December 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 10 | **231,147** | 228,371 |
| Other assets | | **1,621** | – |
| | | **232,768** | 228,371 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **12,162** | 48,313 |
| Cash and cash equivalents | | **766** | 3,793 |
| | | **12,928** | 52,106 |
| **Total assets** | | **245,696** | 280,477 |
| **EQUITY** | | | |
| **Capital and reserves attributable to shareholders of the Company** | | | |
| Share capital and premium | | **12,814** | 51,297 |
| Other reserves | | **228,601** | 225,825 |
| Retained earnings | | **941** | 182 |
| **Total equity** | | **242,356** | 277,304 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **3,340** | 3,173 |
| **Total liabilities** | | **3,340** | 3,173 |
| **Total equity and liabilities** | | **245,696** | 280,477 |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 37. Balance Sheet and Reserve Movement of the Company (Continued)

### (a) Reserve movement of the Company

| | Retained earnings/ (accumulated losses) | Other reserves |
|---|---|---|
| At 1 January 2017 | 26,042 | 222,199 |
| Loss for the year | (3,860) | – |
| Dividends (note 32) | (22,000) | – |
| Share options granted to employees | – | 3,914 |
| Exercise of share options | – | (283) |
| Share options forfeited during the year | – | (5) |
| **At 31 December 2017** | 182 | 225,825 |
| At 1 January 2018 | **182** | **225,825** |
| Profit for the year | **4,051** | **–** |
| Treasury shares (note 20) | **(3,292)** | **–** |
| Share options granted to employees | **–** | **2,821** |
| Share options forfeited during the year | **–** | **(45)** |
| **At 31 December 2018** | **941** | **228,601** |

**Mr. Au Pak Yin**
*Director*

**Mr. Au Kwok Lun**
*Director*

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 38. Benefits and Interests of Directors

### (a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

**For the year ended 31 December 2018:**

| Name | Fees | Salaries | Discretionary bonuses | Housing allowance | Allowances and benefits in kind | Employee's contribution to retirement scheme | Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking | Total |
|---|---|---|---|---|---|---|---|---|
| Mr. Au Pak Yin | 203 | 1,419 | – | – | 91 | – | – | 1,713 |
| Mr. Au Kwok Lun (Chief Executive Officer) | 203 | 991 | – | – | 101 | 15 | – | 1,310 |
| Mr. Ou Guo Liang | 203 | 220 | – | – | 101 | 15 | – | 539 |
| Mr. Lai Ming, Joseph* | 203 | – | – | – | – | – | – | 203 |
| Mr. Meng Yan* | 101 | – | – | – | – | – | – | 101 |
| Mr. Xu Guangmao** | 92 | – | – | – | – | – | – | 92 |
| Mr. Yeung Kwok Keung* | 203 | – | – | – | – | – | – | 203 |
| | 1,208 | 2,630 | – | – | 293 | 30 | – | 4,161 |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 38. Benefits and Interests of Directors (Continued)

### (a) Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2017:

| Name | Fees | Salaries | Discretionary bonuses | Housing allowance | Allowances and benefits in kind | Employee's contribution to retirement scheme | Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking | Total |
|---|---|---|---|---|---|---|---|---|
| Mr. Au Pak Yin | 225 | 1,578 | – | – | 92 | – | – | 1,895 |
| Mr. Au Kwok Lun (Chief Executive Officer) | 225 | 1,089 | – | – | 104 | 16 | – | 1,434 |
| Mr. Ou Guo Liang | 225 | 244 | – | – | 104 | 16 | – | 589 |
| Mr. Lai Ming, Joseph* | 225 | – | – | – | – | – | – | 225 |
| Mr. Meng Yan* | 110 | – | – | – | – | – | – | 110 |
| Mr. Xu Guangmao* | 110 | – | – | – | – | – | – | 110 |
| Mr. Yeung Kwok Keung* | 225 | – | – | – | – | – | – | 225 |
| | 1,345 | 2,911 | – | – | 300 | 32 | – | 4,588 |

* Mr. Lai Ming, Joseph, Mr. Meng Yan, Mr. Xu Guangmao and Mr. Yeung Kwok Keung are independent non-executive directors of the Company.

** Mr. Xu Guangmao resigned from the Group on 6 November 2018.

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## 38. Benefits and Interests of Directors (Continued)

### (a) Directors' and chief executive's emoluments (Continued)

During the years ended 31 December 2018 and 2017, none of the directors of the Company waived their emoluments nor have agreed to waive their emoluments.

| Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the company or its subsidiary undertaking | | Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the company or its subsidiary undertaking | | Total | Total |
|---|---|---|---|---|---|
| **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **3,868** | 4,288 | **293** | 300 | **4,161** | 4,588 |

### (b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years 2018 and 2017 or at any time during the years ended 31 December 2018 and 2017.

# Five-Year Financial Summary

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## Consolidated Balance Sheets

| | 31 December 2018 | 31 December 2017 | 31 December 2016 | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 103,640 | 94,402 | 89,488 | 88,642 | 91,985 |
| Land use right | 8,010 | 8,299 | 8,588 | 8,877 | 9,166 |
| Intangible assets | 11,726 | 11,911 | 12,681 | 9,463 | 8,730 |
| Investments accounted for using the equity method | 9,132 | 14,870 | 18,570 | 10,176 | 89 |
| Financial assets at fair value through profit or loss | 463 | – | – | – | – |
| Financial assets of fair value through other comprehensive income | 6,214 | – | – | – | – |
| Available-for-sale financial assets | – | 2,556 | 3,349 | 3,349 | 4,480 |
| Deferred income tax assets | 4,349 | 2,190 | 2,682 | – | 560 |
| Restricted cash | 7,000 | 58,120 | 58,130 | 160 | 30,100 |
| Other receivables | 3,158 | 1,781 | – | – | – |
| Other assets | 3,038 | – | – | – | – |
| | 156,730 | 194,129 | 193,488 | 120,667 | 145,110 |
| **Current assets** | | | | | |
| Inventories | 91,876 | 79,795 | 89,113 | 102,367 | 95,917 |
| Trade and other receivables | 27,390 | 49,997 | 39,034 | 28,666 | 43,563 |
| Financial assets at fair value through profit or loss | – | 20,092 | – | 5,426 | 8,779 |
| Structured deposits in a bank | – | – | – | – | 30,000 |
| Time deposits | 57,960 | – | – | – | – |
| Restricted cash | 254 | 253 | 69,651 | 30,289 | 60,390 |
| Cash and cash equivalents | 95,388 | 171,056 | 198,516 | 308,739 | 223,645 |
| | 272,868 | 321,193 | 396,314 | 475,487 | 462,294 |
| **Total assets** | 429,598 | 515,322 | 589,802 | 596,154 | 607,404 |
| **EQUITY** | | | | | |
| **Capital and reserves attributable to shareholders of the Company** | | | | | |
| Share capital and premium | 12,814 | 51,297 | 24,578 | 147,449 | 102,806 |
| Other reserves | 256,185 | 252,643 | 245,913 | 232,769 | 217,428 |
| Retained earnings | 8,799 | 40,365 | 51,616 | 68,395 | 68,453 |
| | 277,798 | 344,305 | 322,107 | 448,613 | 388,687 |
| **Non-controlling interests** | (119) | (455) | (77) | 60 | 75 |
| **Total equity** | 277,679 | 343,850 | 322,030 | 448,673 | 388,762 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 31,543 | 50,154 | 53,670 | – | 27,896 |
| Deferred income tax liabilities | 475 | 667 | 1,073 | 799 | – |
| | 32,018 | 50,821 | 54,743 | 799 | 27,896 |
| **Current liabilities** | | | | | |
| Trade and other payables | 62,076 | 86,317 | 98,768 | 112,814 | 100,432 |
| Contract liabilities | 4,010 | – | – | – | – |
| Current income tax liabilities | 3,815 | 4,334 | 6,921 | 4,243 | 6,715 |
| Borrowings | 50,000 | 30,000 | 107,340 | 29,625 | 83,599 |
| | 119,901 | 120,651 | 213,029 | 146,682 | 190,746 |
| **Total liabilities** | 151,919 | 171,472 | 267,772 | 147,481 | 218,642 |
| **Total equity and liabilities** | 429,598 | 515,322 | 589,802 | 596,154 | 607,404 |
| **Net current assets** | 152,967 | 200,542 | 183,285 | 328,805 | 271,548 |
| **Total assets less current liabilities** | 309,697 | 394,671 | 376,773 | 449,472 | 416,658 |

(All amounts in Renminbi Yuan thousands unless otherwise stated)

## Consolidated Income Statement

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Revenue** | **329,621** | 373,188 | 526,637 | 496,975 | 548,762 |
| Cost of goods sold | **(224,595)** | (241,790) | (331,730) | (306,373) | (357,684) |
| **Gross profit** | **105,026** | 131,398 | 194,907 | 190,602 | 191,078 |
| Other income | **5,765** | 7,663 | 9,962 | 12,952 | 9,858 |
| Selling and marketing expense | **(40,130)** | (37,740) | (43,263) | (37,593) | (30,466) |
| Administrative expenses | **(40,375)** | (47,065) | (48,629) | (48,223) | (45,053) |
| Research and development expenses | **(44,523)** | (28,111) | (26,834) | (25,430) | (24,005) |
| Other gains/(losses) – net | **440** | 1,523 | 376 | 25,257 | (677) |
| **Operating (loss)/profit** | **(13,797)** | 27,668 | 86,519 | 117,565 | 100,735 |
| Finance expenses – net | **(10,138)** | (500) | (7,408) | (3,948) | (2,791) |
| Share of losses of investments accounted for using the equity method | **(1,081)** | (657) | (606) | (613) | (11) |
| Impairment of investment in associates | **(3,586)** | (6,443) | – | – | – |
| **(Loss)/profit before income tax** | **(28,602)** | 20,068 | 78,505 | 113,004 | 97,933 |
| Income tax expenses | **(439)** | (6,593) | (17,440) | (24,098) | (15,297) |
| **(Loss)/profit for the year** | **(29,041)** | 13,475 | 61,065 | 88,906 | 82,636 |
| **Attributable to:** | | | | | |
| – Shareholders of the Company | **(28,274)** | 13,853 | 61,176 | 88,921 | 82,605 |
| – Non-controlling interests | **(767)** | (378) | (111) | (15) | 31 |
| | **(29,041)** | 13,475 | 61,065 | 88,906 | 82,636 |
| **(Loss)/earnings per share for (loss)/profit attributable to the shareholders of the Company during the year** (expressed in RMB per share) | | | | | |
| – Basic | **(0.045)** | 0.021 | 0.098 | 0.147 | 0.147 |
| – Diluted | **(0.045)** | 0.021 | 0.098 | 0.147 | 0.146 |