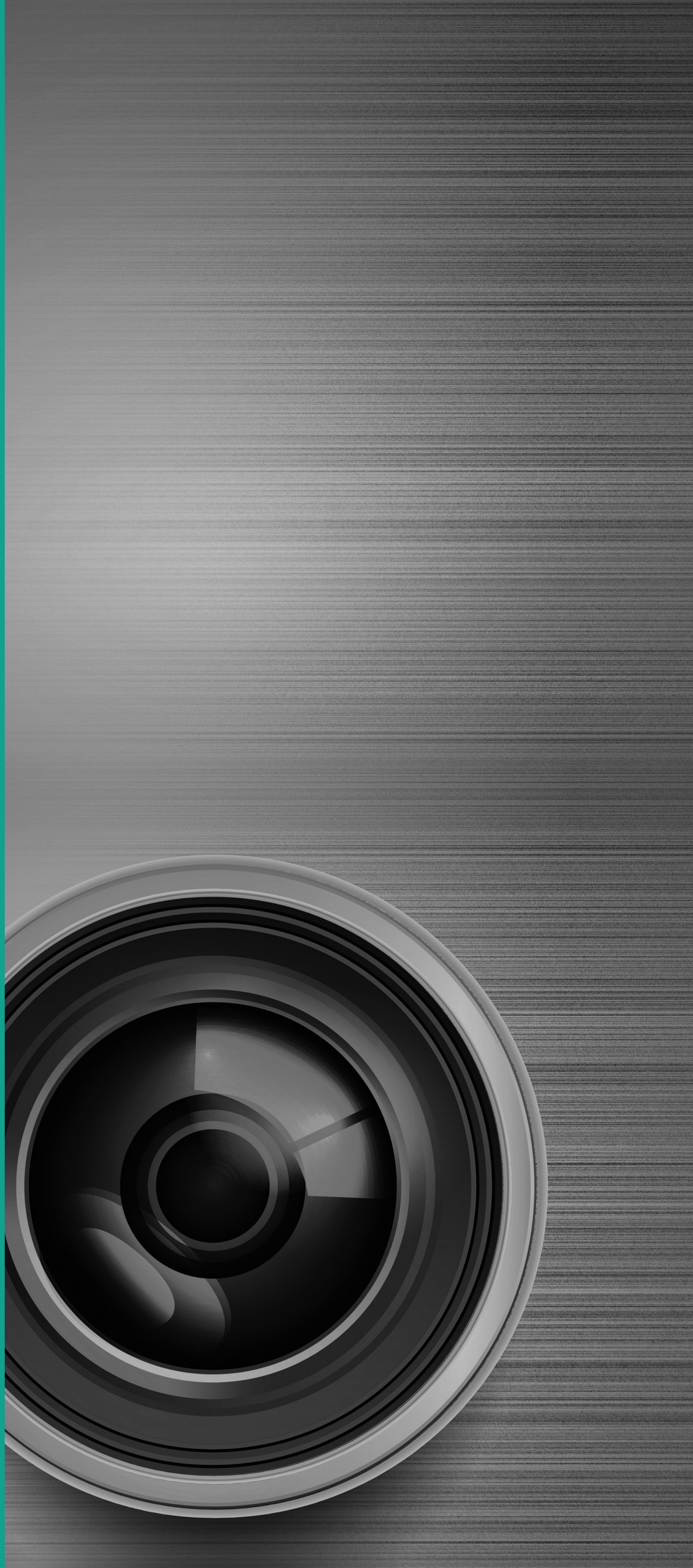
ANNUAL REPORT 2018

Sky Light Holdings Limited
天彩控股有限公司

Stock Code 3882

Incorporated in the Cayman Islands with limited liability

ANNUAL REPORT
2018



www.sky-light.com.hk

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Financial Highlights

	2018 HK$'000	2017 HK$'000	Change
REVENUE	**989,708**	716,452	38.1%
LOSS FOR THE YEAR	**(253,728)**	(485,300)	–47.7%
LOSS DIVIDED BY OPERATION			
— Loss for the year from a discontinued operation	**(182,952)**	(294,353)	–37.8%
— Loss for the year from continuing operations	**(70,776)**	(190,947)	–62.9%
	(253,728)	(485,300)	–47.7%
FURTHER BREAKDOWN			
—LOSS ATTRIBUTABLE TO CONTINUING OPERATIONS			
— Impairment loss of long term investments and other receivables from continuing operations	**(9,739)**	(88,827)	–89.0%
— Operating loss from continuing operations	**(61,037)**	(102,120)	–40.2%
	(70,776)	(190,947)	–62.9%

Corporate Information

Board of Directors

Executive Directors

Mr. Tang Wing Fong Terry *(Chairman)*
Mr. Lu Yongbin

Non-executive Directors

Professor Huang Erwin Steve
Ms. Tang Kam Sau
Mr. Wu Yongmou

Independent Non-executive Directors

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Committees of the Board

Audit Committee

Mr. Tse Yat Hong *(Chairman)*
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Remuneration Committee

Mr. Tse Yat Hong *(Chairman)*
Mr. Tang Wing Fong Terry
Mr. Chan Tsu Ming Louis

Nomination Committee

Mr. Tang Wing Fong Terry *(Chairman)*
Mr. Tse Yat Hong
Mr. Chan Tsu Ming Louis

Authorized Representatives

Mr. Tang Wing Fong Terry
Mr. Lu Yongbin

Company Secretary

Mr. Lu Yongbin

Registered Office

P.O. Box 10008, Willow House
Cricket Square, Grand Cayman
KY1-1001, Cayman Islands

Head Office, Headquarters and Principal Place of Business in the People's Republic of China ("China" or the "PRC")

No. 8 & 9 Building
Antuoshan High-tech Industrial Park
Xinsha Road, Shajing, Bao'An
Shenzhen
PRC

Principal Place of Business in Hong Kong

1009 Kwong Sang Hong Centre
151–153 Hoi Bun Road
Kwun Tong
Kowloon Hong Kong

Auditors

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Hong Kong Legal Adviser

Mayer Brown
16th–19th Floors, Prince's Building
10 Charter Road
Central
Hong Kong

Corporate Information

Cayman Islands Principal Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House
Cricket Square Grand Cayman
KY1-1001, Cayman Islands

Hong Kong Branch Share Registrar

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

Principal Bankers

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

Citibank N.A.
9/F Citi Tower One Bay East
83 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

Stock Code

3882

Company Website Address

www.sky-light.com.hk

Chairman's Statement

To all shareholders,

First of all, on behalf of the Board of Directors (the "Directors") (the "Board"), thank you for your continued support for Sky Light Holdings Limited ("Sky Light" or the "Company" or "our Company") and its subsidiaries (together, the "Group" or "our Group" or "we"). We will do our best to turnaround as soon as possible after the last two disappointed financial years.

The group's total revenue from continuing operations is around HK$989.7 million (2017: approximately 716.5 million) for the year ended 31 December 2018 ("FY2018"), representing an increase of approximately 38.1% compared to the year ended 31 December 2017 ("FY2017"). We recorded a loss of approximately HK$ 253.7 million in FY2018.

Because of the disappointed result of ION360 business, we laid off most of the staff of ION360 in the second quarter ("Q2") of 2018 and started the process to exit the ION360 business. On 1 October 2018, we disposed the ION360 business. The loss of ION360 business in 2018 is approximately HK$183.0 million. The Group suffered significant loss investing on Virtual Reality ("VR") chain related business for the last two years. We will be prudent to invest in any new business in future.

Economy was not as good as what we had expected from 2nd half of 2018 onward due to the trade war between the People's Republic of China ("China") and the United States of America (the "US") ("China-US trade war"). Customers reduced their orders and halted some projects discussions. Because of that, and the cost in China kept on increasing, we conceived and crystallized setting up a factory to manufacture near Hanoi, Vietnam.

The new Vietnam factory will start mass production in May of 2019. We are very hopeful that the new factory can help us reduce cost and eliminate customers' concern on the US tariffs. That would present more opportunities for us to get additional customers and orders.

In 2019, we will focus on developing creative products and working hard to optimize our operation in China and Vietnam. Imaging products have broad applications in different sectors, especially for era of 5G in future. Sky Light will keep on exploring and developing valuable business prudently.

Appreciation

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

Tang Wing Fong Terry
Chairman

Hong Kong, 27 March 2019

Management Discussion and Analysis

Business review

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

Since its establishment, the Group's core operations have mainly focused on imaging products. The Group has successfully shifted from positioning as a traditional imaging products manufacturer to an action camera vendor, and further introduced home surveillance cameras starting in 2014. It has successfully launched 360-degree cameras in 2016 and introduced light cameras, doorbell cameras and LTE police cameras in 2018.

ODM/JDM business

For FY2018, the Group's turnover from the ODM/JDM business significantly increased by approximately HK$273.3 million to approximately HK$989.7 million from approximately HK$716.5 million for FY2017. The increase was primarily attributable to the substantial increase in the shipment volume of home surveillance camera products to the Group's key customers as compared with FY2017. The business was not as good as what we had expected in the 2nd half of 2018 due to US-China trade war. More than 50% of our business fell into the list of 10% tariff to US. Some customers reduced their orders and halted project discussions. At the end of 2018, we decided to set up a company in Vietnam in which we own 65% equity interest. The Vietnam factory will start mass production in May 2019.

Home surveillance cameras of the Group's ODM/JDM business have become the major revenue source following the substantial increase in the shipment volume, and contributed approximately 66.7% of the Group's total revenue for FY2018.

Prospects

The Group considers that, the first half of 2019 will be challenging with the uncertainties in the business environment caused by China-US trade war. After we start our production in Vietnam in May 2019, our US customers don't need to worry about paying the tariffs. With that reason, we expect to have more new customers to discuss projects with us.

Anyway, we believe that imaging products and solutions will be widely used with different applications, especially when era of 5G is coming. We trust the market demand will increase continuously and the Group's management is confident in our future. Thus, the Group will work hard to increase market share and deliver high-quality products and solutions to its customers by pursuing the following strategies:

- Continue to develop innovative products by further investing in product planning and development capabilities;
- Strengthen customer relationships and further expand its customer base;
- Actively explore the market in Mainland China; and
- Improve the operations of its China and Vietnam factories.

Management Discussion and Analysis

Financial review

Turnover

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

	2018 HK$'000	% of total revenue	2017 HK$'000	% of total revenue	Revenue change
Home surveillance cameras	**660,121**	**66.7%**	371,853	51.9%	77.5%
Digital imaging products	**225,343**	**22.8%**	247,293	34.5%	–8.9%
Other products	**104,244**	**10.5%**	97,306	13.6%	7.1%
TOTAL	**989,708**	**100%**	716,452	100%	38.1%

For FY2018, the Group recorded a turnover of approximately HK$989.7 million from the ODM/JDM business (FY2017: approximately HK$716.5 million), representing a significant increase of approximately 38.1% as compared to FY2017. This increase was mainly attributable to the significant increase in the shipment units of home surveillance cameras and digital imaging products.

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

	2018 HK$'000	2017 HK$'000
United States of America	**554,119**	432,586
Mainland China	**153,630**	101,743
European Union	**262,349**	156,909
Hong Kong	**7,430**	12,012
Other countries and areas	**12,180**	13,202
	989,708	716,452

Management Discussion and Analysis

Cost of sales

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

For FY2018, cost of sales of the Group amounted to approximately HK$816.8 million (FY2017: approximately HK$531.3 million), representing a increase of approximately 53.7% as compared to FY2017, and amounted to approximately 82.5% (FY2017: approximately 74.2%) of its turnover for FY2018. This increase was mainly attributable to a substantial increase in the shipment units of home surveillance cameras and digital imaging products.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately HK$173.0 million for FY2018 (FY2017: approximately HK$185.2 million), representing a decrease of approximately 6.6% as compared to FY2017. The gross profit margin decreased from approximately 25.8% for FY2017 to approximately 17.5% for FY2018, mainly due to the increase of cost of raw materials and the decrease of selling price of certain products.

Other income and gains

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

For FY2018, other income and gains of the Group slightly increased by approximately HK$15.2 million to approximately HK$22.8 million as compared to FY2017, which was primarily attributable to a decrease of approximately HK$6.1 million in government grants related to the research and development activities of the Group, an increase of approximately HK$7.3 million in exchange gains due to the depreciation of the Renminbi against the US dollar during the year and an increase of approximately HK$5.7 million in gain on disposal of subsidiaries.

Selling and distribution expenses

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

For FY2018, selling and distribution expenses of the Group decreased approximately 12.9% to approximately HK$29.5 million from approximately HK$33.8 million for FY2017. The decrease was mainly due to the Group has controlled expenditure.

Administrative expenses

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

Management Discussion and Analysis

For FY2018, administrative expenses of the Group decreased by approximately 3.5% to approximately HK$90.3 million (FY2017: approximately HK$93.5 million). The decrease was mainly due to the Group has controlled expenditure.

Research and development costs

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

For FY2018, the Group recorded research and development costs of approximately HK$98.9 million, which decreased by approximately 35.1% from approximately HK$152.3 million for FY2017. This decrease was mainly due to the Group has invested less in research and development on ION360 projects.

Other expenses

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

For FY2018, other expenses of the Group decreased to approximately HK$41.4 million from approximately HK$94.5 million for FY2017. This mainly consisted of (i) impairment losses of approximately HK$26.3 million (FY2017: approximately HK$88.1 million) in relation to some cooperation partners' default in repayment of deposits; and (ii) impairment losses of several available-for-sale investments.

Finance costs

For FY2018, the finance costs of the Group decreased to approximately HK$1.3 million (FY2017: approximately HK$1.4 million), representing a decrease by approximately 7.6% as compared to FY2017. This decrease was attributable to a decrease in average borrowing of US$ amounts from certain banks in Hong Kong.

Share of losses of associates

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

As the Group has significant interests in these two companies and can exercise significant influence, other than control or joint control, over these two companies, the investments were accounted for under equity method. The Group's share of the post-acquisition results of associates is in the consolidated statement of profit or loss. For FY2018, the Group shared approximately HK$2.2 million losses from the associates.

Income tax expense

For FY2018, the income tax expense of the Group was approximately HK$3.1 million, which was due to the reversal of deferred tax asset.

Management Discussion and Analysis

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK$253.7 million for FY2018.

Liquidity and capital resources

The Group's principal cash requirements are to pay for working capital needs, capital expenditures for the expansion and upgrade of production facilities. The Group meets these cash requirements by relying on cash flows generated from operating activities and proceeds from issue of shares as its principal sources of funding. The following table sets out its selected consolidated cash flow for the periods indicated:

	2018 HK$'000	2017 HK$'000
Net cash flows used in operating activities	**(87,681)**	(213,573)
Net cash flows used in investing activities	**(86)**	(51,255)
Net cash flows used in financing activities	**(9,561)**	(33,919)
Net decrease in cash and cash equivalents	**(97,328)**	(298,747)
Cash and cash equivalents at beginning of year	**203,129**	480,436
Effect of foreign exchange rate changes, net	**(10,669)**	21,440
Cash and cash equivalents at end of year	**95,132**	203,129

Net cash used in operating activities for FY2018 was approximately HK$87.7 million, which primarily reflected (i) the adjusted loss before tax of approximately HK$32.7 million; (ii) the increase of trade receivables of approximately HK$17.0 million; (iii) the decrease in inventory balances of approximately HK$54.7 million; (iv) the decrease in prepayments, deposits and other receivables of approximately HK$3.2 million; and (v) the decrease in trade payables of approximately HK$59.4 million.

Net cash used in investing activities for FY2018 was approximately HK$0.9 million. This mainly consisted of (i) payment of approximately HK$16.2 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; (ii) disposal of financial assets at fair value through profit or loss of approximately HK$8.0 million and financial assets at fair value through other comprehensive income of approximately HK$3.5 million and (iii) receipt of approximately HK$3.4 million for disposal of items of property, plant and equipment.

Net cash used in the financing activities for FY2018 was approximately HK$9.6 million, which was mainly reflected (i) the decrease in the use of interest-bearing bank borrowings to repay trade payables resulting in repayment of bank borrowings of approximately HK$59.6 million; and (ii) the interest-free loan provided by shareholder amounting to approximately HK$51.2 million.

The Group's cash and cash equivalents were denominated in US$, HK$ and RMB as at 31 December 2018.

Management Discussion and Analysis

Borrowing and the pledge of assets

The Group's bank facilities amounting to HK$33.0 million (FY2017: HK$275.8 million), of which HK$29.7 million (FY2017: HK$89.3 million) had been utilised as at the 31 December 2018.

The Group's banking facilities amounting to HK$10.0 million are secured by mortgages over the Group's building. The Group's banking facility amounting to HK$23.0 million is secured by an insurance and a wealth management product purchased from the bank.

The Group's bank and other borrowings are all denominated in US$ and bear fixed interest rates. As at 31 December 2018, the annual interest rate of bank borrowings ranged from 2.6% to 4.3% (31 December 2017: 1.8% to 2.9%).

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank and other borrowings) by total equity as at the end of the each period end. The Group's gearing ratio as at 31 December 2017 and 31 December 2018 was approximately 15.6% and approximately 9.6%, respectively. The decrease in gearing ratio was mainly due to the significant decrease in outstanding interest-bearing bank borrowings as at 31 December 2018 due to the shrinking of the bank facilities limit.

Capital expenditure

During FY2018, the Group invested approximately HK$12.5 million (FY2017: approximately HK$13.7 million) in fixed assets and intangible assets, which was mainly due to the increase of expenses for relocation of factory in Shenzhen.

Off balance sheet transactions

During FY2018, the Group did not enter into any material off balance sheet transactions.

Foreign exchange exposure and exchange rate risk

The Group has transactional currency exposure, which arises from sales in currencies other than the relevant operating units, that is, functional currencies. Approximately 87.6% and 87.3% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 52.7% and 47.4% of inventory costs were denominated in their functional currencies for FY2017 and FY2018, respectively.

The Group used forward currency contracts to manage currency risk. However, due to the high fluctuation in exchange rate during the year, the Group did not enter into any forward currency contracts during FY2018 and had no outstanding forward currency contracts as at 31 December 2018 (31 December 2017: Nil).

Management Discussion and Analysis

Events after the reporting period

On 14 February 2019, the Group established a company under the name of Sky Light Electronics Joint Stock Company in Vietnam ("Sky Light Vietnam") with CNC Holdings Vietnam Joint Stock Company ("CNCTech"), an independent third party. The Group holds a 65% equity interest in Sky Light Vietnam by providing property, plant, equipment in the amount of approximately HK$13,450,000 and cash of HK$1,834,000 as the initial capital contribution. CNCTech holds 35% of the equity interest in Sky Light Vietnam by providing cash of HK$8,225,000 as the initial capital contribution.

On 15 January 2019, the Company and Mr. Tang Wing Fong Terry ("Mr. Tang") entered into a loan capitalisation agreement (the "Loan Capitalisation Agreement") whereby Mr. Tang, being the chairman, an executive Director and the ultimate controlling shareholder of the Company, conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 95,605,455 new Shares (the "Capitalisation Shares") at the issue price of HK$0.55 per share for the capitalisation (the "Loan Capitalisation") of the outstanding principal amount of the fixed term loans in the total principal amount of HK$52,583,000 provided by Mr. Tang to the Company (the "Shareholder Loan"). The Capitalisation Shares ranked pari passu in all respects with the existing Shares in issue at the date of allotment and issue of the Capitalisation Shares. The aggregate nominal value of the Capitalisation Shares (with a par value of HK$0.01 each) was approximately HK$956,055. The issue price of HK$0.55 per Capitalisation Share represented a premium of approximately 22.22% to the closing price per Share of HK$0.45 as quoted on the Stock Exchange on 15 January 2019, being the date of the Loan Capitalisation Agreement. The aggregate consideration for the allotment and issue of the Capitalisation Shares of HK$52,583,000 was settled by way of setting off against the outstanding principal amount of HK$52,583,000 under the Shareholder Loan. The Loan Capitalisation was subject to the independent shareholders' approval which was obtained at the extraordinary general meeting of the Company held on 7 March 2019.

Treasury policies

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

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

Management Discussion and Analysis

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

During 2018, the Group did not have any investment under its treasury policies.

Employees and emoluments policy

As at 31 December 2018, the Group employed a total of 1,164 employees (31 December 2017: 1,889). The staff costs of the Group, excluding directors' emoluments and any contributions to pension scheme, were approximately HK$117.3 million for FY 2018 (FY 2017: approximately HK$160.6 million), approximately HK$0.7 million (FY2017: approximately HK$8.7 million) of which are expenses for the Group's share option schemes and share award scheme. All of the Group's employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. The Group seeks to provide compensation for its research and development staff at above-market levels to attract and retain talents. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme and the share option scheme, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes. In addition to the share option schemes, the Group also adopted a share award scheme on 20 September 2016 to: (i) recognise the contributions by certain employees and to provide them with incentives in order to retain talents; and (ii) attract suitable personnel for the Group's further development.

Significant investments held

As at 31 December 2018, the Group held unlisted equity investment with a carrying amount of HK$34.0 million (31 December 2017: approximately HK$27.4 million).

Application of global offering proceeds

The Company was listed on the Stock Exchange on 2 July 2015. The net proceeds raised from the global offering were approximately HK$613.0 million after deduction of related expenses. The Company applied proceeds from the Listing as follows:

The Company has not utilised and will not utilise any net proceeds for purposes other than those disclosed in the prospectus of the Company dated 19 June 2015 and the Announcement (as defined below).

Management Discussion and Analysis

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

Use of proceeds	Actual net proceeds HK$ million	Actual utilisation up to 31 December 2018 HK$ million	Balance as at 31 December 2018 HK$ million
Purchase of land or completed properties or offices and purchase of production machinery	71.8	71.8	–
Marketing expenditures	138.9	138.9	–
Possible mergers and acquisitions	116.5	116.5	–
Research and development expenditures	156.4	156.4	–
Working capital and general corporate purposes (including purchases of raw materials)	129.4	129.4	–
	613.0	613.0	–

Commitment

As at 31 December 2018, the Group's operating lease and capital commitment amounted to approximately HK$80.3 million (31 December 2017: approximately HK$45.6 million) and approximately HK$16.0 million (31 December 2017: approximately HK$1.4 million). On 14 February 2019, the Group invested in a company named Sky Light Electronics Joint Stock Company in Vietnam by providing property, plant and equipment and cash amounting to approximately HK$15.2 million.

Future plans for material investments or capital assets

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

Material acquisitions and disposals of subsidiaries and associated companies

Except for the disposal of ION360 business to IYC CAPITAL LLC, a company Incorporated in Delaware with limited liability, for consideration of US$1, there are no other material acquisitions and disposals of subsidiaries and associated companies during FY2018. As all applicable percentage ratios as set out in Chapter 14 of the Listing Rules in respect of the transactions were less than 5%, they were not notifiable transactions subject to the reporting and announcement requirements.

Management Discussion and Analysis

Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

Annual general meeting

The annual general meeting of the Company (the "AGM") is scheduled to be held on Friday, 24 May 2019. A notice convening the AGM will be issued and disseminated to the Shareholders in due course.

Dividends

The Board does not recommend the payment of any final dividend for FY2018 (FY2017: Nil).

Closure of register of members

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Friday, 24 May 2019 (both days inclusive) during which no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 May 2019.

Director and Senior Management

Executive Directors

Mr. Tang Wing Fong Terry (鄧榮芳), aged 60, is the Chairman, an executive Director and the chief executive officer of our Company and the founder of our Group. Mr. Tang is chairman of Nomination Committee and a member of Remuneration Committee of the Company. He was appointed as the Chairman and an executive Director with effect from 18 December 2013. He has been the general manager of our Group and is a director of each of the subsidiaries of our Company. Mr. Tang is primarily responsible for the overall strategic planning and overseeing the general management of our Group. Mr. Tang has more than 20 years of experience in the digital imaging, computer peripherals and consumer electronics industry. Mr. Tang and his associate are controlling shareholders which held approximately 57.35% of total issued shares in the Company as at 31 December 2018.

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

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

Mr. Lu Yongbin (盧勇斌), aged 46, is an executive Director, the chief financial officer and a company secretary of our Company. Mr. Lu joined our Group in 2005 and was appointed as an executive Director with effect from 25 March 2015. He is currently the head of our finance department and is primarily responsible for the management of overall financial and accounting affairs of our Group. Mr. Lu has approximately 26 years of experience in accounting and related financial management and 14 years of experience in the digital imaging industry.

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

Director and Senior Management

Non-Executive Directors

Professor Huang Erwin Steve (黃岳永), aged 53, is a Non-executive Director of our Company. Professor Huang joined our Group on 25 March 2015 and was appointed as a Non-executive Director with effect from 25 March 2015.

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

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

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

Mr. Wu Yongmou (吳勇謀), aged 40, is a Non-executive Director of our Company. Mr. Wu joined our Group in 2010. He was appointed as an executive director of the Company on 25 March 2015 and was the general manager for Sky Light Technology (Heyuan) Limited ("Sky Light Technology") and primarily responsible for its overall management. He is also a director of Sky Light Electronic (Shenzhen) Limited ("Sky Light Shenzhen"). From 2 July 2018, he was re-designated as a non-executive director of the Company. Mr. Wu has more than 10 years of experience in the digital imaging industry and in production management.

Mr. Wu founded Shenzhen Yongyida Electronics Co., Ltd. (深圳市勇藝達電子有限公司), a company engaged in the manufacturing of mobile phone and other communication products, in 2003. In 2007, Mr. Wu established Xinyongyi Science Park (Heyuan) Co., Ltd. ("Xinyongyi"), a company engaged in the development and operation of science park in Heyuan. Mr. Wu and his associate are substantial shareholders which held approximately 6.28% of total issued shares in the Company as at 31 December 2018.

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

Director and Senior Management

Ms. Tang Kam Sau (鄧錦繡), aged 56, is a non-executive Director of our Company. Ms. Tang joined our Group in 2005 and was appointed as a non-executive Director with effect from 25 March 2015. Ms. Tang has approximately 14 years of experience in the digital imaging industry.

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

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

Independent Non-Executive Directors

Mr. Chan Tsu Ming Louis (陳祖明), aged 59, is an independent non-executive Director of our Company. Mr. Chan joined our Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Mr. Chan is a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company.

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

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

Director and Senior Management

Dr. Cheung Wah Keung (張華強), aged 57, is an independent non-executive Director of our Company. Dr. Cheung joined our Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Dr. Cheung is a member of Audit Committee of the Company. Dr. Cheung has more than 30 years of experience in trading and manufacturing of consumer electronic products.

Dr. Cheung was the chairman and an executive director of Shinhint Acoustic Link Holdings Limited (Stock Code: 2728) from May 2005 to November 2014. Dr. Cheung also served as an independent non-executive director of China Kingstone Mining Holdings Limited (Stock code: 1380) from July 2015 to December 2015. Dr. Cheung was the non-executive chairman and an independent non-executive director of Harmonic Strait Financial Holdings Limited (now known as Asia Investment Finance Group Limited) (Stock Code: 33) from September 2013 to September 2016 and June 2007 to September 2016, respectively. Dr. Cheung is currently an independent non-executive director of Casablanca Group Limited (Stock Code: 2223) since May 2017 and is an independent non-executive director of PanAsialum Holdings Company Limited (Stock Code: 2078) since March 2018. All of these companies are listed on the Main Board of the Stock Exchange.

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

Mr. Tse Yat Hong (謝日康), aged 49, is an independent non-executive Director of our Company. Mr. Tse joined our Group on 5 December 2017 and was appointed as an independent non-executive Director with effect from 5 December 2017. He is chairman of the Audit Committee and Remuneration Committee, and a member of the Nomination Committee of the Company.

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

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

Director and Senior Management

Senior Management

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

Mr. Gan Weijun (甘衛軍), aged 51, is the head of research and development of our Group. Mr. Gan joined our Group in October 2002. He is primarily responsible for leading the overall research and development activities of our Group. Mr. Gan has approximately 16 years of experience in the digital imaging industry.

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

Dr. Yum Tsz Yin (任子賢), aged 39, is the director of marketing and strategic sales of our Group. Dr. Yum joined our Group in April 2016. He is primarily responsible for the sales, program and marketing of our Group. Dr. Yum has approximately 17 years of experience in product, business and brand management in the consumer electronics industry.

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

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

Mr. Tsui Chiu (徐超), aged 40, is the head of product planning of our Group. Mr. Tsui joined our Group in April 2011. He is primarily responsible for leading the product planning activities of our Group. Mr. Tsui has more than 10 years of experience in product planning and management in the consumer electronics industry.

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

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

Company Secretaries

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

Corporate Governance Report

Corporate Governance Practices

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

The Company has adopted the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as the basis of the Company's corporate governance practices. Throughout the year ended 31 December 2018, the Company has complied with all applicable code provisions of the CG Code except for the following:

Non-compliance during FY2018

Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman of the Board ("Chairman") and chief executive of the Company are performed by Mr. Tang Wing Fong Terry, the Company has deviated from the CG Code provision A.2.1. The Board considers that having Mr. Tang Wing Fong Terry acting as both our Chairman and our chief executive officer will provide a strong and consistent leadership to the Company and allow for more effective planning and management for our Group. In view of Mr. Tang's extensive experience in the industry, personal profile and critical role in our Group and its historical development, the Board considers that it is beneficial to the business prospects of our Group that Mr. Tang continues to act as both our Chairman and our chief executive officer. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct governing its directors' securities transactions. Specific enquiries have been made with all the Directors and they have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

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

Corporate Governance Report

The Board of Directors

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

Delegation of management functions

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

Delegation of corporate governance duties

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

Board Composition

Currently, the Board comprises two executive Directors, three non-executive Directors and three independent non-executive Directors. The Company has complied with rules 3.10 and 3.10A of the Listing Rules. Throughout the year ended 31 December 2018 and save as disclosed above in the paragraph headed "Corporate Governance Practices" in the Corporate Governance Report, the number of independent non- executive Directors represents more than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgment.

Corporate Governance Report

The Board comprises the following directors:

Executive Directors

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

Non-executive Directors

Professor Huang Erwin Steve
Mr. Wu Yongmou
Ms. Tang Kam Sau

Independent non-executive Directors

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

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

Chairman and Chief Executive Officer

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

Non-executive Directors

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

Corporate Governance Report

Independent Non-executive Directors

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

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

Appointment, Re-Election and Removal of Directors

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

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

In accordance with the Company's Articles of Association, Mr. Tang Wing Fong Terry, Mr. Lu Yongbin and Professor Huang Erwin Steve shall retire at the forthcoming 2019 AGM.

Professor Huang Erwin Steve has informed the Board that he would not offer himself for re-election and accordingly will retire as Director upon the conclusion of the AGM.

Save for Professor Huang Erwin Steve, the other two retiring Directors, being eligible, offer themselves for re-election as Directors at the Annual General Meeting. The Board and the Nomination Committee recommend their reappointment.

The Company's circular, sent together with this annual report, contains detailed information of the above two Directors proposed to be re-elected as required by the Listing Rules.

Directors' Training

All Directors confirmed that they had complied with CG Code provision A.6.5 during the year ended 31 December 2018, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

Corporate Governance Report

The existing Directors are continually updated on changes and developments to the Group's business and in the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities. Directors' training is an ongoing process. All directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide their training records to the Company for record. During the year ended 31 December 2018, the Directors have participated in continuous professional training as follows:

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

Notes:

a. Receiving in-house regular briefings and updates on the Group's business, operations and corporate governance matters.

b. Attending seminars/forums, which are relevant to their directors' duties and responsibilities, organised by professional firms/institutions.

c. Reading technical bulletins, periodicals and other publications on subjects relevant to the Group and on their directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Board Meetings

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

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

Corporate Governance Report

Set out below are details of the attendance record of each Director at the Board and committee meetings of the Company held during the year ended 31 December 2018:

	Attendance/Number of Meetings Held				
Name of Directors	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting
Executive Directors					
Mr. Tang Wing Fong Terry	6/6*	N/A	1/1*	1/1	1/1
Mr. Lu Yongbin	6/6	N/A	N/A	N/A	1/1
Non-executive Directors					
Professor Huang Erwin Steve	5/6	N/A	N/A	N/A	1/1
Mr. Wu Yongmou	5/6	N/A	N/A	N/A	1/1
Ms. Tang Kam Sau	6/6	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Tse Yat Hong	6/6	3/3*	1/1	1/1*	1/1
Dr. Cheung Wah Keung	6/6	3/3	N/A	N/A	1/1
Mr. Chan Tsu Ming Louis	6/6	3/3	1/1	1/1	1/1

Remark:

* representing chairman of the Board or the relevant committees

At least four regular board meetings are convened each year.

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

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

Directors' and Officers' liability insurance

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

Corporate Governance Report

Board Committees

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

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

Audit Committee

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

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

— Review and discussion of the audited consolidated financial statements, results announcement and report for the year ended 31 December 2017; unaudited interim condensed financial statements, results announcement and report for the six months ended 30 June 2018; the related accounting principles and practices adopted by the Group and the relevant audit/review findings, the report from the management on the Company's internal control and risk management review and processes;

— Recommendation of the re-appointment of the external auditors;

— Review of the Group's continuing connected transactions;

— Review of and monitoring the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report;

— Discussion of appointment of external service provider for review of the Group's financial reporting process, risk management and internal control systems; and

— Review of the risk management and internal control systems and internal control function.

Corporate Governance Report

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

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control, risk management and financial reporting matters, including the review of the audited annual results and annual report for the year ended 31 December 2017 and the unaudited interim results and interim report for the six months ended 30 June 2018, and the review of the audited annual results and annual report for the year ended 31 December 2018.

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

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

Nomination Committee

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

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

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

Corporate Governance Report

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

— Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;

— Assessment of the independence of all the Company's independent non-executive Directors; and

— Review of the composition of the senior management.

Remuneration Committee

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

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

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management, including those members of senior management who are also executive Directors, by band for the year ended 31 December 2018 is set out below:

Remuneration band (HK$)	Number of individual
<500,000	0
500,001–<1,000,000	2
1,000,001–1,500,000	3
1,500,001–2,000,000	2

Details of the remuneration of each director of the Company and compensation of key management personnel of the Group for the year ended 31 December 2018 are set out in note 8 and note 35 respectively, to the financial statements contained in this annual report.

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

Corporate Governance Report

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

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

Corporate Governance Function

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

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

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

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

Corporate Governance Report

External Auditors' Remuneration

The Company engaged Ernst & Young as its external auditors for the year ended 31 December 2018. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. The statement of external auditors of the Company about his reporting responsibilities on the Company's consolidated financial statements for the year is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to Ernst & Young, the Company's auditors, in respect of audit services for the year ended 31 December 2018 was HK$2.6 million. The audit fee was approved by the Board. During the year, the total remuneration in respect of the non-audit services, mainly included the Group's internal control system and risk management, provided by the external professional firms of the Company was HK$0.4 million.

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

Risk Management and Internal Control

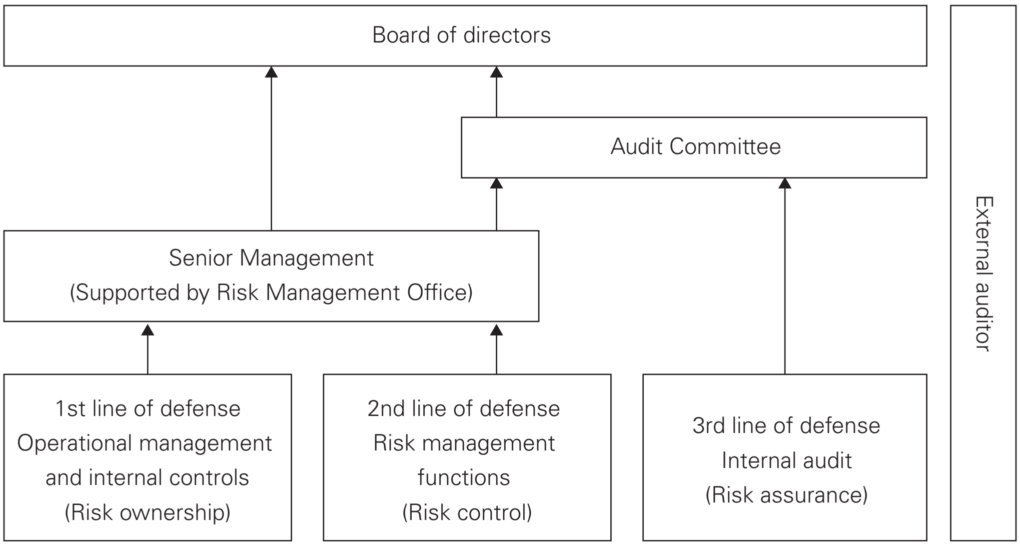
The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's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

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

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

Corporate Governance Report

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



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

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

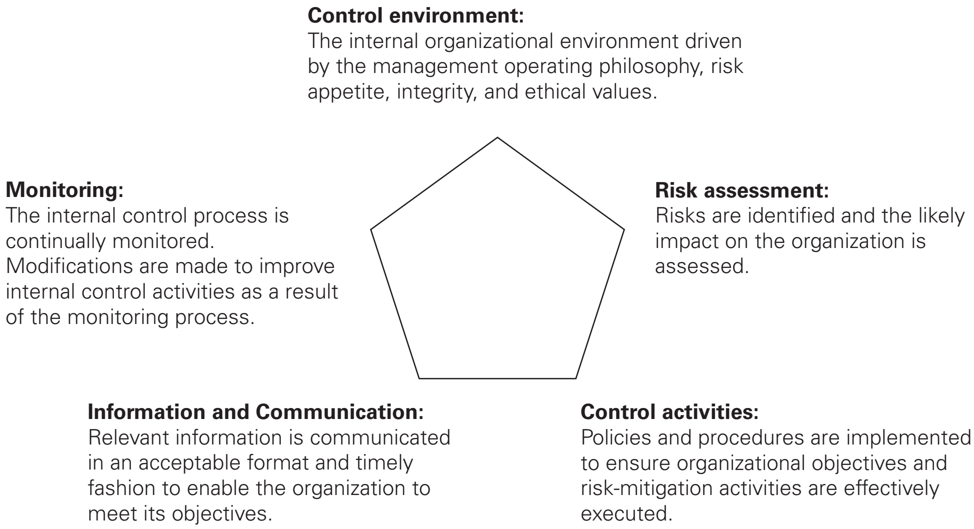
Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities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

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

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

Corporate Governance Report

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



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

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

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

Corporate Governance Report

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

The Company regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. During the year ended 31 December 2018, the Risk Management Office has worked closely with the operating units, senior management, and the Directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal control with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management Office has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the Directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

During the year ended 31 December 2018, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board and appropriate actions are taken.

During the year ended 31 December 2018, the Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The Board considered that the Group's internal control system is adequate and effective and the Company has complied with the code provision on risk management and internal control of the CG code.

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

Corporate Governance Report

Company Secretary

The company secretary of the Company is Mr. Lu Yongbin. Biographical details of company secretary are set out under "Directors and Senior Management" section in this annual report.

During the year ended 31 December 2018, Mr. Lu Yongbin has taken not less than 15 hours of relevant professional training.

Shareholders' Rights

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

Shareholders to Convene an Extraordinary General Meeting

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

Putting Enquiries by Shareholders to the Board

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

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

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

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

Corporate Governance Report

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

Voting by Poll

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

Investor Relations

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

- Delivery of annual and interim results and reports to all shareholders;

- Publication of announcements on the annual and interim results on the Stock Exchange's and the Company's websites, and issuance of other announcements and circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

Constitutional Documents

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

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

Directors' Report

The Directors are pleased to present to the Shareholders this annual report and the audited financial statements for the year ended 31 December 2018.

Principal Activities

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

Results and Dividends

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Company and of the Group as at 31 December 2018 are set out in the financial statements on pages 63 to 151. The Board does not recommend any final dividend (2017: Nil) for the year ended 31 December 2018.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Friday, 24 May 2019, both days inclusive, during which period no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 May 2019.

Financial Summary

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 152 of this report. The summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2018 are set out in note 14 to the financial statements.

Bank Borrowings

Particulars of the bank borrowings of the Group as at 31 December 2018 are set out in note 24 to the financial statements.

Share Capital

Details of the movements in share capital of the Company during the year ended 31 December 2018 are set out in note 28 to the financial statements.

Directors' Report

Pre-Emptive Rights

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

Reserves

Details of the movement in reserves of the Company and the Group during the year under review are set out in note 31 to the financial statements and the consolidated statement of changes in equity respectively.

Distributable Reserves

As at 31 December 2018, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$118.7 million (2017: approximately HK$372.3 million) including share premium of approximately HK$700.1 million and accumulated losses of approximately HK$581.4 million.

Charitable Donations

The group has no charitable donations for the year ended 31 December 2018 (2017: HK$23,083).

Major Suppliers and Customers

For the year ended 31 December 2018, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 13.8% (2017: approximately 11.3%) and approximately 34.1% (2017: approximately 32.5%) of the Group's total purchases respectively.

For the year ended 31 December 2018, sales to the single top customer of the Group and the five top customers of the Group in aggregate accounted for approximately 37.3% (2017: approximately 23.1%) and approximately 72.7% (2017: approximately 65.9%) of the Group's total turnover respectively.

At all-time during the year ended 31 December 2018, none of the Directors or any of their close associates or any shareholders of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or customers.

Business Review

The business review of the Group for the year ended 31 December 2018 is set out in the Management Discussion and Analysis of this annual report, which form part of this Directors' Report. The Environmental, Social and Governance Report for the year ended 31 December 2018 will be available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sky-light.com.hk) in around June 2019.

Directors' Report

Directors

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

Executive Directors

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

Non-executive Directors

Professor Huang Erwin Steve
Mr. Wu Yongmou
Ms. Tang Kam Sau

Independent non-executive Directors

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

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

In accordance with article 84 of the Company's Articles of Association, Mr. Tang Wing Fong Terry, Mr. Lu Yongbin and Professor Huang Erwin Steve will retire at the Company's forthcoming AGM.

Mr. Huang Erwin Steve has informed the Board that he would not offer himself for re-election and accordingly will retire as Director upon the conclusion of the Annual General Meeting.

Save for Mr. Huang Erwin Steve, the other two retiring Directors, being eligible, offer themselves for re-election as Directors at the Annual General Meeting.

Directors' Remuneration and the Five Highest Paid Individuals

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

Directors' Report

Emolument Policy

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

Directors' Service Contract

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

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

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

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

Management Contracts

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

Permitted Indemnity

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

Directors' Report

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

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

		Number of Shares or underlying shares [1]					
Name of Director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total interests	Approximate percentage of total issued Shares in the Company
Tang Wing Fong Terry	Founder of a discretionary trust and beneficial owner	73,822,502[2] shares (L)	–	–	417,717,600[2] shares (L)	491,540,102 shares (L)	57.35%
Wu Yongmou	Founder of a discretionary trust and beneficial owner	42,905,000[3] shares (L)	–	–	10,931,000[3] shares (L)	53,836,000 shares (L)	6.28%
Tang Kam Sau	Interest in a controlled corporation	–	–	39,192,000[4] shares (L)	–	39,192,000 shares (L)	4.57%
Lu Yongbin	Beneficial owner	4,057,800[5] shares (L)	–	–	–	4,057,800 shares (L)	0.47%
Huang Erwin Steve	Beneficial owner	2,750,000[6] shares (L)	–	–	–	2,750,000 shares (L)	0.32%
Cheung Wah Keung	Beneficial owner	750,000[6] shares (L)	–	–	–	750,000 shares (L)	0.09%
Chan Tsu Ming Louis	Beneficial owner	750,000[6] shares (L)	–	–	–	750,000 shares (L)	0.09%
Tse Yat Hong	Beneficial owner	750,000[6] shares (L)	–	–	–	750,000 shares (L)	0.09%

Directors' Report

Notes:

(1) The letter "L" denotes the Directors' long position in the shares of the Company.

(2) The disclosed interest represents (i) the interest in 417,717,600 Shares held by Fortune Six Investment Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited) and (ii) his personal interest in 73,822,502 Shares.

(3) The disclosed interest represents (i) the interest in 10,931,000 Shares held by YongWeiDa Investment Limited, which is wholly owned by Wing Lung Bank (Trustee) Limited as trustee of the Wu's Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited) and (ii) his personal interest in 42,905,000 Shares.

(4) Ms. Tang Kam Sau is the sole shareholder of Uphigh Global Limited, which holds 39,192,000 Shares. By virtue of the SFO, she is deemed to be interested in Uphigh Global Limited's interest in the Company by virtue of the SFO.

(5) The disclosed interest represents Mr. Lu Yongbin's (i) personal interest in 3,595,800 Shares and (ii) 462,000 underlying Shares in respect of the share options granted under the share option scheme adopted by the Company on 12 June 2015.

(6) These represent the share options of the Company granted to the respective directors under the Company's share option scheme. For details, please refer to the section headed "Pre-IPO share option scheme and share option scheme — Share Option Scheme".

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

Directors' Report

Substantial Shareholders' and Others' Interests and Short Positions in Shares and Underlying Shares

To the best knowledge of the Directors, as at 31 December 2018, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name of shareholder	Capacity/nature of interest	Number of shares[1]	Approximate percentage of total issued shares in the Company
Wing Lung Bank (Trustee) Limited[2]	Trustee	433,020,600 shares (L)	50.52%
Antopex Limited[2]	Nominee for another person	428,648,600 shares (L)	50.01%
Best One International Limited[2][3]	Interest of controlled corporation	417,717,600 shares (L)	48.73%
Fortune Six Investment Limited[2][3]	Beneficial owner	417,717,600 shares (L)	48.73%

Notes:

(1) The letter "L" denotes a person's long position in the shares of the Company.

(2) Wing Lung Bank (Trustee) Limited as trustee holds 433,020,600 Shares by virtue of the SFO as follows: (i) 417,717,600 Shares held by Fortune Six Investment Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited); (ii) 10,931,000 Shares held by YongWeiDa Investment Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Wu's Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited) and (iii) 4,372,000 shares held by Wing Lung Bank (Trustee) Limited as trustee for the share award schemes of the Company .

(3) The interest of Best One International Limited and Fortune Six Investment Ltd. was also disclosed as the interest of Mr. Tang Wing Fong Terry in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had an interest or a short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

Directors' Report

Directors' Interests in Contracts of Significance

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

Directors' Interest in Competing Business

During the year ended 31 December 2018, none of the Directors has any interest in a business apart from the business which competes or is likely to compete, either directly or indirectly, with the Group's business.

Deed of Non-Competition

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

The Company has received confirmations from the Controlling Shareholders of their compliance with the terms of the Deed. The Controlling Shareholders declared that they have fully complied with the Deed for the year ended 31 December 2018. The independent non-executive directors have reviewed on the confirmations from the Controlling Shareholders and concluded that the Deed has been complied with and has been effectively enforced.

Directors' rights to acquire shares or debenture

Save as disclosed herein, at no time during the year ended 31 December 2018 was the Group a party to any arrangements to enable the Directors of the Group to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

Purchase, sale or redemption of listed securities

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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company for the year ended 31 December 2018.

Directors' Report

Pre-IPO Share Option Scheme and Share Option Scheme

Pre-IPO Share Option Scheme

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

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

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

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

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

(b) approximately 33% of the option shall become vested and exercisable on the 2nd anniversary date of the Listing Date (the "2nd Vesting Date"), and the exercise period in respect thereof shall commence on the 2nd Vesting Date and end on the 1st anniversary date of the 2nd Vesting Date (both dates inclusive); and

(c) approximately 34% of the option shall become vested and exercisable on the 3rd anniversary date of the Listing Date (the "3rd Vesting Date"), and the exercise period in respect thereof shall commence on the 3rd Vesting Date and end on the 1st anniversary date of the 3rd Vesting Date (both dates inclusive).

Directors' Report

The following table discloses details of the Company's share options held by senior management and other employees and movements in such holding during the year ended 31 December 2018:

Name	As at 1 January 2018	Exercised	Cancelled	Lapsed	As at 31 December 2018	Approximate percentage of the total number of Shares in issue as at the date of this report
Senior management	794,000	–	–	366,000	428,000	0.05%
Other employees	5,636,000	59,000	–	2,807,000	2,770,000	0.32%
Total	6,430,000	59,000	–	3,173,000	3,198,000	0.37%

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

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

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

The Group reversed a share option expenses of approximately HK$2.8 million (2017: recognised expense of approximately HK$2.6 million) for the year ended 31 December 2018 in relation to Pre-IPO Share Option Scheme granted by the Company.

Directors' Report

Share Option Scheme

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

(1) The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

(ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Eligible Participants refers to:

(i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

(ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;

(iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and

(iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:

(a) contribution to the development and performance of our Group;

(b) quality of work performed for our Group;

(c) initiative and commitment in performing his/her duties; and

(d) length of service or contribution to our Group.

Directors' Report

(2) The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares (the "Scheme Limit"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.

(3) The maximum entitlement of each Eligible Participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.

(4) An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date.

(5) An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.

(6) Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period ending 12 June 2025.

(7) The exercise price is determined by the directors of the Company at their discretion and will not be lower than the higher of: (a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (b) the average closing price of the ordinary shares on the Stock Exchange for the 5 business days immediately preceding the offer date; (c) the nominal value of the Company's share.

As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 41,176,000 Shares, representing approximately 4.80% of the total number of Shares in issue.

Directors' Report

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

	Date of grant	27 July 2015 (Note 1)	15 September 2016 (Note 2)(Note 3)	1 December 2016 (Note 4)	18 May 2017 (Note 5)	26 April 2018 (Note 6)
(i)	Share Options granted as at the date of grant or 1 January 2018	2,000,000	11,544,000	11,400,000	15,000,000	12,522,000
	Share Options exercised during the year	–	–	–	–	–
	Share Options cancelled during the year	–	–	–	–	–
	Share Options lapsed during the year	–	2,133,000	6,800,000	4,719,000	–
(ii)	Share Options outstanding as at 31 December 2018	2,000,000	9,411,000	4,600,000	10,281,000	12,522,000
	Approximate percentage of the total number of Shares in issue as at the date of this report	0.23%	1.10%	0.54%	1.20%	1.46%
(iii)	Exercise price of the Share Options	HK$3.46	HK$1.70	HK$1.986	HK$2.206	HK0.94
(iv)	Closing price immediately before the date of grant	HK$3.46	HK$1.56	HK$2.04	HK$2.18	HK0.93

Notes:

(1) On 27 July 2015, share options to subscribe for a total of 2,000,000 Shares were granted to Professor Huang Erwin Steve, a non-executive Director, pursuant to the Share Option Scheme. Maximum of 50% of the share options of the Company ("Share Options") shall become vested and exercisable from 27 July 2016 to 26 July 2019 (both dates inclusive). The remaining 50% of the Share Options shall become vested and exercisable from 27 July 2017 to 26 July 2020 (both dates inclusive). None of the above Share Options was exercised or cancelled or lapsed from the date of grant up to 31 December 2018 and therefore the balance of the outstanding share options as of 31 December 2018 remains the same as 27 July 2015.

(2) On 15 September 2016, 12,942,000 Share Options were granted to certain eligible participants pursuant to the Share Option Scheme.

- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her have been vested on 15 September 2017 and are exercisable at any time during the period commenced on 15 September 2017 and ending on 14 September 2022 (both dates inclusive);

- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her have been vested on 15 September 2018 and are exercisable at any time during the period commenced on 15 September 2018 and ending on 14 September 2023 (both dates inclusive); and

- 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 15 September 2019 and shall be exercisable at any time during the period commencing on 15 September 2019 and ending on 14 September 2024 (both dates inclusive).

(3) Among the Share Options granted on 15 September 2016, 2,250,000 Share Options were granted to the following Directors of the Company, details of which are as follows:

Name of Directors	Position	Share Options as at 1 January 2018	Share Options exercised during the year	Share Options cancelled during the year	Share Options lapsed during the year	Share Options Outstanding as at 31 December 2018	Approximate percentage of shareholding upon full exercise of Share Options granted
Huang Erwin Steve	Non-executive director	750,000	–	–	–	750,000	0.09%
Chan Tsu Ming Louis	Independent non-executive director	750,000	–	–	–	750,000	0.09%
Cheung Wah Keung	Independent non-executive director	750,000	–	–	–	750,000	0.09%

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

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

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

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

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

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

- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her have been vested on 31 January 2018 and is exercisable at any time during the period commenced on 31 January 2018 and ending on 30 January 2023 (both dates inclusive);

- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2019 and shall be exercisable at any time during the period commencing on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); and

- conditional upon the achievement of certain performance targets by the Group, up to 1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 31 January 2020 and shall be exercisable at any time during the period commencing on 31 January 2020 and ending on 30 January 2025 (both dates inclusive).

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

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

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

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

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

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

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

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

(6) On 26 April 2018, Share Options to subscribe for a total of 12,522,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme. Among the said Share Options granted, 252,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and a company secretary of the Company and 750,000 Shares were granted to Mr. Tse Yat Hong, an Independent non-executive director of the Company

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 26 April 2019 and shall be exercisable at any time during the period commencing on 26 April 2019 and ending on 25 April 2024 (both dates inclusive);

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 26 April 2020 and shall be exercisable at any time during the period commencing on 26 April 2020 and ending on 25 April 2025 (both dates inclusive); and

1/3 (i.e. approximately 33.33%) of the Share Options so granted to him/her shall become vested on 26 April 2021 and shall be exercisable at any time during the period commencing on 26 April 2021 and ending on 25 April 2026 (both dates inclusive).

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

At grant date		26 April 2018	18 May 2017	15 September 2016 & 1 December 2016	27 July 2015
(i)	Expected volatility	59.03%–62.75% per year	57.63%–61.27% per year	45.69%–65.81% per year	45.69%–46.80% per year
(ii)	Expected life of options	6.0–8.0	6.0–8.0	6.0–8.17	4.0–5.0
(iii)	Average risk-free interest rate	2.11%–2.13% per year	1.16%–1.22% per year	1.44%–2.09% per year	1.47%–1.66% per year
(iv)	Expected dividend yield	5.74% per year	5.32% per year	3.93%–5.32% per year	3.93% per year
(v)	Estimated rate of leaving service	27.5% per year	25% per year	0%–25% per year	0% per year

The Group recognised expense of approximately HK$4.1 million and reversed expense of approximately HK$1.9 million (FY2017: recognised expense of approximately HK$15.0 million) during FY2018 in relation to Share Option Scheme granted by the Company.

Share Award Scheme

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

(1) Purpose

The purposes of the Scheme are:

(i) to recognise the contributions by certain Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and

(ii) to attract suitable personnel for further development of the Group.

(2) Duration

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

(3) Administration

(i) The Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules and the terms of the Trust Deed.

(ii) The Trustee shall during the trust period hold the Trust Shares, the Awarded Shares, the related income, the returned shares and the residual cash in accordance with the terms of the Trust Deed.

(iii) The Board may from time to time issue implementation and operation manual for the Scheme.

Directors' Report

(4) Scheme Limit

(i) The Board shall not make any further award of Awarded Shares which will result in the number of Shares awarded by the Board under the Scheme exceeding 10 per cent (10%) of the issued share capital of the Company as at 20 September 2016.

(ii) The maximum number of Shares which may be awarded to a Selected Employee under the Scheme shall not exceed 2.5 per cent (2.5%) of the issued share capital of the Company as at 20 September 2016.

(5) Operation of Scheme

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

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

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

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

(6) Lapse

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

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

(7) Restrictions

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

The Company shall comply with the relevant Listing Rules when granting the Awarded Shares. If awards are made to the directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules. In FY2016, a total of 6,558,000 Awarded Shares were purchased on the Stock Exchange at prices ranging from HK$1.79 to HK$2.30 per share. These Awarded Shares were awarded to a certain employee on 29 November 2016, which shall be vested in tranches of one-third each on every anniversary date of the grant date starting from the 1st anniversary date until the 3rd anniversary date. Details of the Share Award Schemes during the year are set out in note 30 to the consolidated financial statements.

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

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

Directors' Report

Related Party Transactions

The details of the related party transactions are set out in note 35 to the financial statements. The Company confirms that in relation to the related party transactions for the year ended 31 December 2018, it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Continuing Connected Transactions

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

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

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

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

The actual amount in FY2018 in respect of the above leasing was HK$4,257,000 (2017: HK$4,740,000), which is within the annual cap of HK$5,200,000 (2017: HK$7,900,000).

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

Directors' Report

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

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

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules from 1 January 2018 up to the date of this report.

Auditors

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

By the order of the Board
Tang Wing Fong Terry
Chairman

Hong Kong
27 March 2019

Independent Auditor's Report

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Independent auditor's report
To the members of Sky Light Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Sky Light Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 151, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 of opinion

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

Key audit matters

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

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

Independent Auditor's Report

Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables At 31 December 2018, the carrying amount of trade receivables was HK$122,602,000 (net of allowance for doubtful debts of HK$6,620,000) as disclosed in Note 19 to the consolidated financial statements. Assessment of the recoverability of trade receivables involves a high level of management judgement. During the year, due to the adoption of a new accounting standard, a change in accounting policy on impairment assessment of trade receivables was noted. Management used a provision matrix to calculate expected credit losses ("ECL") for trade receivables. The calculation of ECL is based on the Group's historical default rates, forward looking information, and specific factors that management considered in the estimation of ECL including the type of customers, ageing of the balances, recent historical payment patterns and forecast economic conditions. The accounting policies and disclosures in respect of impairment assessment of trade receivables are included in notes 2.4, 3 and 19 to the consolidated financial statements.	We evaluated the design and implementation of internal controls which govern credit control, debt collection and estimate of ECL. We tested the ageing analysis of the trade receivables, on a sample basis, to the source documents, including sales invoices and goods delivery notes. We assessed the ECL provision by:(i) evaluating management's assumptions used in establishing the ECL provision matrix; (ii) examining the information used by management to form such judgements, including testing the accuracy of historical default data and ageing of trade receivables, evaluating the adjustments made on the historical loss rates based on the forward-looking information; and (iii) examining the actual losses recorded during the current year. We inspected the cash receipts from customers after the year end relating to the trade receivable balances as at 31 December 2018, on a sample basis.

Independent Auditor's Report

Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Property, plant and equipment impairment review As at 31 December 2018, the Group's property, plant and equipment is amounted to HK$76,741,000. The impairment test and assessment of property, plant and equipment are largely based on management's expectations and estimates of future operation results of the Group's cash-generating units. This assessment involves significant judgements and estimates made by management. The accounting policies, significant accounting judgements and estimates and disclosures are included in notes 2.4, 3 and 14 to the consolidated financial statements.	We discussed with management and assessing whether any indicator of impairment exists. For the property, plant and equipment with an impairment indicator, we examined the Group's forecasted cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking the accuracy of previous forecasts and the historic data supporting underlying assumptions into consideration. We examined future cash flow assumptions through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. We involved our internal expert to assist us in assessing the methodology on impairment assessment and the parameters such as discount rate and terminal growth rate used by management.
Inventory provision The Group's principal activities are the manufacture and distribution of home surveillance cameras, digital imaging products and other related products. The Group's inventories are subject to the significant risk of obsolescence accompanying with the rapid technology development of digital products. Significant management judgement was accordingly involved when determining the extent of write-down of inventories to net realisable value. Management is required to estimate the respective future selling prices and selling costs to determine if any provision should be made or should be reversed. The significant accounting judgements and estimates and disclosures for inventories are included in notes 2.4, 3 and 17 to the consolidated financial statements.	We evaluated the process, methods and assumptions used by management to determine the provision for inventories against slow-moving, excess and/or obsolete items. We considered the historical sales and sales orders placed by the Group's customers when evaluating management's estimation of the future usage of the Group's inventories. We tested the underlying data used by management to calculate the inventory obsolescence provisions, typically an aged analysis of inventories showing last movements, and by re-performing the ageing calculation.

Independent Auditor's Report

Other information included in the Annual Report

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

The engagement partner on the audit resulting in this independent auditor's report is LAW KWOK KEE.

Ernst & Young
Certified Public Accountants

Hong Kong
27 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**989,708**	716,452
Cost of sales		**(816,751)**	(531,286)
Gross profit		**172,957**	185,166
Other income and gains	5	**22,824**	15,222
Selling and distribution expenses		**(29,458)**	(33,828)
Administrative expenses		**(90,268)**	(93,515)
Research and development expenses	6	**(98,858)**	(152,350)
Other expenses		**(41,357)**	(94,450)
Finance costs	7	**(1,302)**	(1,409)
Share of losses of associates	18	**(2,198)**	(3,367)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	6	**(67,660)**	(178,531)
Income tax expense	10	**(3,116)**	(12,416)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(70,776)**	(190,947)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	11	**(182,952)**	(294,353)
LOSS FOR THE YEAR		**(253,728)**	(485,300)
Attributable to:			
Owners of the parent		**(253,728)**	(485,300)

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
— For loss for the year		**HK(29.8) cents**	HK(57.5) cents
— For loss from continuing operations		**HK(8.3) cents**	HK(22.6) cents
Diluted			
— For loss for the year		**HK(29.8) cents**	HK(57.5) cents
— For loss from continuing operations		**HK(8.3) cents**	HK(22.6) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
LOSS FOR THE YEAR		**(253,728)**	(485,300)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**–**	405
Reclassification adjustments for losses included in the consolidated statement of profit or loss	21	**105**	–
Exchange differences on translation of foreign operations		**(12,372)**	27,669
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		**2,996**	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(9,271)**	28,074
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(262,999)**	(457,226)
Attributable to:			
Owners of the parent		**(262,999)**	(457,226)

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**76,741**	107,447
Prepaid land lease payments	16	**2,610**	2,705
Intangible assets	15	**10,795**	11,801
Investments in associates	18	**–**	21,690
Available-for-sale investments	20	**–**	16,631
Equity investments designated at fair value through other comprehensive income	20	**34,035**	–
Prepayments and other receivables	22	**9,959**	6,263
Deferred tax assets	27	**–**	3,099
Total non-current assets		**134,140**	169,636
CURRENT ASSETS			
Inventories	17	**206,852**	414,653
Trade receivables	19	**122,602**	114,423
Available-for-sale investments	21	**–**	10,805
Financial assets at fair value through profit or loss	21	**2,635**	–
Due from a related party	35	**589**	835
Prepayments, other receivables and other assets	22	**49,343**	71,947
Cash and cash equivalents	23	**95,132**	203,129
Total current assets		**477,153**	815,792
CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**29,717**	89,265
Trade and bills payables	25	**169,046**	228,423
Other payables and accruals	26	**43,993**	79,159
Tax payable		**6,275**	17,150
Due to related parties	35	**84**	296
Total current liabilities		**249,115**	414,293
NET CURRENT ASSETS		**228,038**	401,499
TOTAL ASSETS LESS CURRENT LIABILITIES		**362,178**	571,135

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**362,178**	571,135
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**871**	871
Due to a related party	35	**51,240**	–
Total non-current liabilities		**52,111**	871
Net assets		**310,067**	570,264
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	**8,572**	8,571
Shares held for Share Award Scheme	30	**(9,333)**	(9,333)
Reserves	31	**310,828**	571,026
		310,067	570,264
Total equity		**310,067**	570,264

Tang Wing Fong Terry
Director

Lu Yongbin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to owners of the parent									
	Notes	Share capital HK$'000 (note 28)	Shares held for Share Award Scheme HK$'000 (note 30)	Share premium account HK$'000 (note 28)	Capital reserve HK$'000 (note 31)	Share award reserve HK$'000 (note 30)	Share option reserve HK$'000 (note 29)	Reserve fund HK$'000 (note 31)	Accumulated losses HK$'000	Exchange fluctuation reserve HK$'000	Total equity HK$'000
At 1 January 2018		8,571	(9,333)	699,995	148,702	3,789	25,431	37,050	(327,706)	(16,235)	570,264
Loss for the year		–	–	–	–	–	–	–	(253,728)	–	(253,728)
Other comprehensive loss for the year:											
Available-for sale investments reclassification adjustments for losses included in the consolidated statement of profit or loss		–	–	–	105	–	–	–	–	–	105
Changes in fair value of equity investments at fair value through other comprehensive income		–	–	–	2,996	–	–	–	–	–	2,996
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	(12,372)	(12,372)
Total comprehensive loss for the year		–	–	–	3,101	–	–	–	(253,728)	(12,372)	(262,999)
Issue of shares by exercise of share options	28	1	–	118	–	–	(70)	–	–	–	49
Equity-settled share option arrangements	29	–	–	–	–	–	(570)	–	–	–	(570)
Equity-settled Share Award Scheme arrangement	30	–	–	–	–	3,323	–	–	–	–	3,323
At 31 December 2018		8,572	(9,333)	700,113*	151,803*	7,112*	24,791*	37,050*	(581,434)*	(28,607)*	310,067

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

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

* These reserve accounts comprise the consolidated reserves of HK$310,828,000 (2017: HK$571,026,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax:			
From continuing operations		**(67,660)**	(178,531)
From a discontinued operation		**(182,952)**	(291,503)
Adjustments for:			
Finance costs	7	**1,302**	1,409
Share of losses of associates	18	**2,198**	3,367
Interest income	5	**(1,257)**	(2,526)
Write-down of inventories to net realisable value	17	**156,832**	13,114
Depreciation	6	**32,313**	31,732
Amortisation of prepaid land lease payments	6	**95**	95
Amortisation of intangible assets	6	**812**	7,303
Gain on disposal of an associate	6	**(404)**	–
Gain on disposal of subsidiaries	6	**(5,693)**	–
Impairment of prepayments and other receivables	6	**16,142**	5,430
Impairment of trade receivables	19	**8,758**	–
Impairment of goodwill		**–**	93,089
Impairment of available-for-sale investments	6	**–**	51,950
Impairment of intangible assets	15	**–**	21,752
Impairment of investments in associates	6	**1,798**	9,695
Loss on disposal of items of property, plant and equipment	6	**2,297**	5
Equity-settled share option expense	29	**(570)**	17,623
Equity-settled Share Award Scheme expense	30	**3,323**	7,345
		(32,666)	(208,651)
Decrease/(increase) in inventories		**54,683**	(260,647)
(Increase)/decrease in trade receivables		**(16,967)**	181,010
Decrease in amounts due from a related party		**246**	349
Decrease in prepayments and other receivables		**3,199**	13,759
(Decrease)/increase in trade and bills payables		**(59,377)**	53,999
Decrease in amounts due to related parties		**(212)**	(74)
(Decrease)/increase in other payables and accruals		**(25,712)**	5,190
Cash used in operations		**(76,806)**	(215,065)
Tax paid		**(10,875)**	1,492
Net cash flows used in operating activities		**(87,681)**	(213,573)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Net cash flows used in operating activities		**(87,681)**	(213,573)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		**(16,173)**	(13,097)
Purchases of shareholdings in associates		**–**	(34,752)
Disposal of equity investments at fair value through other comprehensive income		**3,495**	–
Disposal of financial assets at fair value through profit or loss		**7,992**	–
Disposal of subsidiaries	32	**(95)**	–
Purchase of available-for-sale investments		**–**	(7,401)
Interest received	5	**1,257**	2,526
Gross proceeds from disposal of items of property, plant and equipment		**3,438**	1,469
Net cash flows used in investing activities		**(86)**	(51,255)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**100,553**	210,007
Loans from a related party		**51,240**	–
Repayments of bank loans		**(160,101)**	(221,726)
Interest paid	7	**(1,302)**	(1,409)
Dividends paid		**–**	(27,272)
Issuance of new shares by exercise of share options	28	**49**	6,481
Net cash flows used in financing activities		**(9,561)**	(33,919)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(97,328)**	(298,747)
Cash and cash equivalents at beginning of year		**203,129**	480,436
Effect of foreign exchange rate changes, net		**(10,669)**	21,440
CASH AND CASH EQUIVALENTS AT END OF YEAR		**95,132**	203,129
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**95,132**	151,629
Non-pledged time deposits with original maturity of less than three months when acquired	23	**–**	51,500
Cash and cash equivalents as stated in the statement of financial position		**95,132**	203,129
Cash and cash equivalents as stated in the statement of cash flows		**95,132**	203,129

Notes to Financial Statements

31 December 2018

1. Corporate and Group Information

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

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

- Manufacture and distribution of home surveillance cameras
- Manufacture and distribution of digital imaging products
- Manufacture and distribution of other electronic products

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

Information about subsidiaries

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

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

Notes to Financial Statements

31 December 2018

1. Corporate and Group Information *(Continued)*

Information about subsidiaries (Continued)

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

* Sky Light Shenzhen is registered as a wholly-foreign-owned enterprise under PRC law.

** Sky Light Technology (HY) is registered as a limited liability company under PRC law.

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

2.1 Basis of Presentation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

2.1 Basis of Presentation *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 1 and HKAS 28 Annual Improvements 2014–2016 Cycle	*Annual Improvements 2014–2016 Cycle*

Except as described below, the application of the new and revised standards has had no significant financial effect on these consolidated financial statements.

Notes to Financial Statements

31 December 2018

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

a. *HKFRS 9 Financial instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 Measurement Category	Amount HK$'000	Reclassification HK$'000	HKFRS 9 Measurement Category	Amount HK$'000
Financial assets						
Equity investments designated at fair value through other comprehensive income	(i)	N/A	–	16,631	FVOCI[1]	16,631
Financial assets at fair value through profit or loss	(ii)	N/A	–	10,805	FVPL[3]	10,805
From: Available-for-sale investments		AFS[2]	27,436	(27,436)	N/A	–

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

b. HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 would not involve an adjustment to the opening balance of retained profits as at 1 January 2018 and the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as deposits received from customers which is included in other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals. Therefore, upon adoption of HKFRS 15, the Group reclassified HK$24,185,000 from deposits received from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018. As at 31 December 2018, under HKFRS 15, HK$18,536,000 was reclassified from deposits received from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of industrial products.

Notes to Financial Statements

31 December 2018

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards *(Continued)*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$79,911,000 and lease liabilities of HK$79,911,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards *(Continued)*

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

2.4 Summary of Significant Accounting Policies

Investments in associates

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

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments in associates (Continued)

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

Business combinations and goodwill

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

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

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

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

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

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Business combinations and goodwill (Continued)

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

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

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2.4 Summary of Significant Accounting Policies *(Continued)*

Fair value measurement (Continued)

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Related parties

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

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

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

or

2.4 Summary of Significant Accounting Policies *(Continued)*

Related parties (Continued)

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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

Property, plant and equipment and depreciation

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

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

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

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Property, plant and equipment and depreciation (Continued)

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

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

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

Intangible assets (other than goodwill)

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

Software and trademarks

Software and purchased trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 1 to 10 years.

Research and development costs

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

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Leases

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

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

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

Loans and receivables

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

Available-for-sale investments

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Available-for-sale investments *(Continued)*

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

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

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

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

- the rights to receive cash flows from the asset have expired; or

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (Continued)

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

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

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

General approach *(Continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax (Continued)

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax (Continued)

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

Government grants

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

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

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

2.4 Summary of Significant Accounting Policies *(Continued)*

Revenue recognition (applicable from 1 January 2018) (Continued)

Revenue from contracts with customers *(Continued)*

(a) Sale of industrial products

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Revenue recognition (applicable before 1 January 2018)

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the binomial model, further details of which are given in notes 29 and 30 to the financial statements.

2.4 Summary of Significant Accounting Policies *(Continued)*

Share-based payments (Continued)

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

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

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

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

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

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Foreign currencies (Continued)

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

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

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

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

3. Significant Accounting Judgement and Estimates

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

Judgement

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

Income taxes

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

3. Significant Accounting Judgement and Estimates *(Continued)*

Estimation uncertainty

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

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2018 and 2017 were HK$76,741,000 and HK$107,447,000, respectively. Further details are given in note 14.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements.

3. Significant Accounting Judgement and Estimates *(Continued)*

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

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

Provision for inventory write-down

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

Withholding taxes arising from the distributions of dividends

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2018 was Nil (2017: HK$77,000). The amount of unrecognised tax losses at 31 December 2018 was HK$250,861,000 (2017: HK$486,546,000). Further details are contained in note 27 to the financial statements.

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

3. Significant Accounting Judgement and Estimates *(Continued)*

Estimation uncertainty (Continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 20 to the financial statements. The valuation requires the Group to determine the comparable public companies peers and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2018 was HK$34,035,000 (2017: HK$16,631,000). Further details are included in note 20 to the financial statements.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements,

Impairment of available-for-sale financial assets

Before 1 January 2018, The Group classified certain assets as available for sale and recognised movements of their fair values in equity. When the fair value declined, management makes made assumptions about the decline in value to determine whether there was an impairment that should be recognised in the statement of profit or loss. At 31 December 2017, impairment losses of HK$51,950,000 were recognised for available-for-sale assets. The carrying amount of non-current available-for-sale assets as at 31 December 2017 was HK$16,631,000.

4. Operating Segment Information

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

(a) the ODM/JDM business segment focuses on the sale, development and manufacture of imaging products which mainly comprise home surveillance cameras, action cameras and related accessories and other digital imaging products;

(b) the ION360 business segment engages in the sale, development of cameras under its own brands.

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

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

All of the revenue in the ODM/JDM business segment and ION360 business segment is derived from the sale of goods, which is recognised when the goods are transferred at a point in time.

During the year, the Group has disposed of its ION360 business which has been loss making for some years. The disposal was in line with the developing strategy of the Group (note 11). The ION360 business was classified as a discontinued operation and no longer included in the note for operating segment information.

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
United States of America	**554,119**	432,586
Mainland China	**153,630**	101,743
European Union	**262,349**	156,909
Hong Kong	**7,430**	12,012
Other countries and areas	**12,180**	13,202
	989,708	716,452

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

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4. Operating Segment Information *(Continued)*

Geographical information *(Continued)*

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Mainland China	**94,009**	138,004
Hong Kong	**5,251**	10,421
Other countries and areas	**845**	1,481
	100,105	149,906

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

Information about major customers

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

	2018 HK$'000
Customer A	**369,236**
Customer B	**101,043**

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5. Revenue, Other Income and Gains

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
Sale of goods	**989,708**	716,452
Other income and gains		
Bank interest income	**1,257**	2,526
Government grants:		
Related to income*	**6,401**	12,545
Exchange gains	**7,264**	–
Gain on disposal of subsidiaries	**5,693**	–
Gain on disposal of an associate	**404**	–
Others	**1,805**	151
	22,824	15,222

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

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

6. Loss before Tax

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

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		**808,236**	518,172
Depreciation	14	**32,313**	31,732
Amortisation of intangible assets*	15	**812**	7,303
Research and development expenses		**98,858**	152,350
Minimum lease payments under operating leases		**24,700**	20,318
Amortisation of prepaid land lease payments	16	**95**	95
Auditors' remuneration		**2,599**	2,509
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**116,646**	151,947
Pension scheme contributions		**13,825**	16,630
Equity-settled share option expense		**665**	8,740
		131,136	177,317
Exchange (gains)/losses, net		**(7,264)**	4,244
Write-down of inventories to net realisable value		**8,515**	13,114
Loss on disposal of items of property, plant and equipment		**2,297**	5
Impairment of trade receivables, net**		**8,409**	–
Impairment of prepayments and other receivables**	22	**16,142**	5,430
Impairment of investments in associates**	18	**1,798**	9,695
Impairment of available-for-sale investments**		**–**	51,950
Impairment of intangible assets**		**–**	21,021
Gain on disposal of subsidiaries	32	**(5,693)**	–
Gain on disposal of an associate		**(404)**	–
Bank interest income	5	**(1,257)**	(2,526)

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

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

7. Finance Costs

An analysis of finance costs from continuing operations is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank loans	**1,302**	1,409

8. Directors' and Chief Executive's Remuneration

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

	2018 HK$'000	2017 HK$'000
Fees	**960**	937
Other emoluments		
Salaries, allowances and benefits in kind	**1,370**	2,251
Performance related bonuses*	**–**	161
Equity-settled share option expense	**543**	1,298
Pension scheme contributions	**96**	106
	2,009	3,816
	2,969	4,753

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

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. Directors' and Chief Executive's Remuneration *(Continued)*

(a) Independent non-executive directors

	2018 Fees HK$'000	2018 Equity-settled share option expense HK$'000	2017 Fees HK$'000	2017 Equity-settled share option expense HK$'000
Mr. Chan Tsu Ming Louis	**240**	**116**	240	242
Dr. Cheung Wah Keung	**240**	**116**	240	242
Mr. Wong Kee Fung Kenneth	**–**	**–**	200	242
Mr. Tse Yat Hong	**240**	**101**	17	–
	720	**333**	697	726

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2018						
Executive directors:						
Mr. Tang Wing Fong Terry	**–**	**884**	**–**	**–**	**18**	**902**
Mr. Lu Yongbin	**–**	**486**	**–**	**94**	**78**	**658**
	–	**1,370**	**–**	**94**	**96**	**1,560**
Non-executive directors:						
Mr. Wu Yongmou*	**–**	**–**	**–**	**–**	**–**	**–**
Professor Huang Erwin Steve	**240**	**–**	**–**	**116**	**–**	**356**
Ms. Tang Kam Sau	**–**	**–**	**–**	**–**	**–**	**–**
	240	**–**	**–**	**116**	**–**	**356**
	240	**1,370**	**–**	**210**	**96**	**1,916**

* Mr. Wu Yongmou was appointed as an executive director of the Company on 25 March 2015 and re-designated from an executive director of the Company to a non-executive director of the Company on 2 July 2018.

8. Directors' and Chief Executive's Remuneration *(Continued)*

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

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

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

9. Five Highest Paid Employees

The five highest paid employees during the year included no directors (2017: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2017: five) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**5,130**	7,579
Performance related bonuses	**–**	301
Equity-settled share option and Share Award Scheme expenses	**1,538**	11,787
Pension scheme contributions	**114**	25
	6,782	19,692

9. Five Highest Paid Employees *(Continued)*

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

	2018	2017
HK$1,000,001 to HK$1,500,000	**3**	–
HK$1,500,001 to HK$2,000,000	**2**	2
HK$2,000,001 to HK$2,500,000	**–**	2
Over HK$3,500,001	**–**	1
	5	5

During the year, share options were granted to 5 (2017: five) and shares under a Share Award Scheme were granted to Nil (2017: One) non-director and non-chief executive highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 29 and note 30 to the financial statements. The fair value of such options and Share Award Scheme, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. Income Tax

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatments were available for two (2017: two) of the Group's principal operating subsidiaries, Sky Light Shenzhen and Sky Light Technology (HY), since they were recognised as High and New Technology Enterprises and they were entitled to a preferential tax rate of 15% during the year.

The Group's subsidiaries in the United States are subject to the federal tax at a rate of 21%, and also subject to the statutory applicable state corporate income tax at a rate of 7%.

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10. Income Tax *(Continued)*

	2018 HK$'000	2017 HK$'000
Current — Mainland China	–	379
Current — Hong Kong	–	9,441
Deferred (note 27)	**3,116**	2,596
Total tax charge for the year from continuing operations	**3,116**	12,416
Total tax charge for the year from a discontinued operation	–	2,850
	3,116	15,266

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

2018	Mainland China HK$'000	%	Hong Kong HK$'000	%	America HK$'000	%	Total HK$'000	%
Loss before tax from continuing operations	(4,083)		(53,192)		(10,385)		(67,660)	
Loss before tax from a discontinued operation	–		–		(182,952)		(182,952)	
Loss before tax	(4,083)		(53,192)		(193,337)		(250,612)	
Tax at the statutory tax rates	(1,021)	25.0	(8,777)	16.5	(54,134)	28.0	(63,932)	25.5
Entities entitled to lower statutory income tax rates	(6,856)	167.9	–	–	–	–	(6,856)	2.7
Expenses not deductible for tax	214	(5.2)	3,984	(7.5)	20	–	4,218	(1.7)
Tax losses not recognised	10,779	(264.0)	4,855	(9.1)	54,114	(28.0)	69,748	(27.8)
Income not subject to tax	–	–	(62)	0.1	–	–	(62)	–
Tax charge at the Group's effective tax rate	3,116	(76.3)	–	–	–	–	3,116	(1.2)
Tax charge from continuing operations at the effective rate	3,116	(76.3)	–	–	–	–	3,116	(4.6)
Tax charge from a discontinued operation at the effective rate	–	–	–	–	–	–	–	–

10. Income Tax *(Continued)*

2017	Mainland China		Hong Kong		America		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax from continuing operations	(34,673)		(126,951)		(16,907)		(178,531)	
Loss before tax from a discontinued operation	–		–		(291,503)		(291,503)	
Loss before tax	(34,673)		(126,951)		(308,410)		(470,034)	
Tax at the statutory tax rates	(8,668)	25.0	(20,947)	16.5	(123,364)	40.0	(152,979)	32.5
Entities entitled to lower statutory income tax rates	(2,963)	8.5	–	–	–	–	(2,963)	0.6
Adjustments in respect of current tax of previous periods	379	(1.1)	–	–	–	–	379	(0.1)
Expenses not deductible for tax	317	(0.9)	16,509	(13.0)	32,441	(10.5)	49,267	(10.5)
Tax losses not recognised	16,195	(46.7)	13,484	(10.6)	93,773	(30.4)	123,452	(26.3)
Income not subject to tax	–	–	(1,890)	1.5	–	–	(1,890)	0.4
Tax charge at the Group's effective tax rate	5,260	(15.2)	7,156	(5.6)	2,850	(0.9)	15,266	(3.2)
Tax charge from continuing operations at the effective rate	5,260	(15.2)	7,156	(5.6)	–	–	12,416	(7.0)
Tax charge/(credit) from a discontinued operation at the effective rate	–	–	–	–	2,850	(0.9)	2,850	(1.0)

11. Discontinued Operation

During the year, the board of directors of the Group had made the decision to dispose of the ION360 business located in the United States of America. The Group entered into an agreement to dispose of its 100% equity shares of ION Worldwide Inc., ION America LLC, ION360 (USA) LLC, ION360 Investments LLC, and ION360 Imaging LLC ("ION USA") to a third party at the consideration of one United States dollar. The disposal of ION USA became effective on 1 October 2018. Further details are included in note 32 to the financial statements.

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11. Discontinued Operation *(Continued)*

The results of these subsidiaries for the year are presented below:

	2018 HK$'000	2017 HK$'000
Revenue	**280**	19,328
Expenses	**(183,232)**	(310,831)
Loss before tax from the discontinued operation	**(182,952)**	(291,503)
Income tax	**–**	2,850
Loss for the year from the discontinued operation	**(182,952)**	(294,353)

The net cash flows incurred by these subsidiaries are as follows:

	2018 HK$'000	2017 HK$'000
Operating activities	**(2,678)**	(20,578)
Investing activities	**–**	(740)
Financing activities	**–**	–
Net cash outflows	**(2,678)**	(21,318)
Earnings per share:		
Basic, from the discontinued operation	**HK(21.5) cents**	HK(34.9) cents
Diluted, from the discontinued operation	**HK(21.5) cents**	HK(34.9) cents

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2018 HK$'000	2017 HK$'000
Loss attributable to ordinary equity holders of the parent from the discontinued operation	**(182,952)**	(294,353)
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (note 13)	**852,757,000**	844,383,000

12. Dividends

The board of directors of the Company did not recommend any final dividends for 2018 (2017: Nil).

13. Loss per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 852,757,000 (2017: 844,383,000) in issue during the year.

As an anti-dilutive effect was resulted following the losses incurred by the Group, no adjustment has been made to the basic loss per share amounts for the years ended 31 December 2018 and 2017.

The calculations of basic loss per share are based on:

	2018 HK$'000	2017 HK$'000
Earnings		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:	**(253,728)**	(485,300)
From continuing operations	**(70,776)**	(190,947)
From a discontinued operation	**(182,952)**	(294,353)

	Number of shares 2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**852,757,000**	844,383,000
Basic		
— For loss for the year	**HK(29.8) cents**	HK(57.5) cents
Diluted		
— For loss for the year	**HK(29.8) cents**	HK(57.5) cents

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14. Property, Plant and Equipment

	Buildings HK$'000	Leasehold improvements HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Office and other equipment HK$'000	Total HK$'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	7,109	10,843	191,807	3,574	27,764	241,097
Accumulated depreciation	(1,108)	(5,623)	(102,531)	(2,363)	(22,025)	(133,650)
Net carrying amount	6,001	5,220	89,276	1,211	5,739	107,447
At 1 January 2018, net of accumulated depreciation	6,001	5,220	89,276	1,211	5,739	107,447
Additions	–	2,726	6,131	437	2,491	11,785
Disposals	–	–	(5,419)	(72)	(244)	(5,735)
Disposal of subsidiaries (note 32)	–	–	–	–	(373)	(373)
Depreciation provided during the year (note 6)	(308)	(1,120)	(25,244)	(648)	(4,993)	(32,313)
Exchange realignment	(178)	(1,714)	(2,112)	(44)	(22)	(4,070)
At 31 December 2018, net of accumulated depreciation	5,515	5,112	62,632	884	2,598	76,741
At 31 December 2018:						
Cost	6,885	12,983	181,991	3,587	33,130	238,576
Accumulated depreciation	(1,370)	(7,871)	(119,359)	(2,703)	(30,532)	(161,835)
Net carrying amount	5,515	5,112	62,632	884	2,598	76,741

14. Property, Plant and Equipment *(Continued)*

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

Certain of the Group's banking facilities were secured by the Group's building with a carrying value of HK$4,508,000 as at 31 December 2018 (31 December 2017: Nil).

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying value of HK$3,711,000 as at 31 December 2018 (31 December 2017: HK$4,135,000) have not yet been issued by the relevant Mainland China authorities. The Group is in the process of obtaining these certificates.

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15. Intangible Assets

	Trademarks HK$'000	Technology licencing agreement HK$'000	Software HK$'000	Total HK$'000
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation	**245**	**44**	**11,512**	**11,801**
Additions	**–**	**–**	**692**	**692**
Amortisation provided during the year (note 6)	**(33)**	**(44)**	**(735)**	**(812)**
Exchange realignment	**(5)**	**–**	**(881)**	**(886)**
At 31 December 2018, net of accumulated amortisation	**207**	**–**	**10,588**	**10,795**
At 31 December 2018:				
Cost	**24,733**	**4,076**	**15,479**	**44,288**
Accumulated amortisation	**(3,455)**	**(3,395)**	**(4,891)**	**(11,741)**
Impairment	**(21,071)**	**(681)**	**–**	**(21,752)**
Net carrying amount	**207**	**–**	**10,588**	**10,795**
31 December 2017				
Cost at 1 January 2017, net of accumulated amortisation	23,512	3,565	10,435	37,512
Additions	631	–	1,205	1,836
Amortisation provided during the year (note 6)	(3,028)	(2,876)	(1,399)	(7,303)
Impairment during the year (note 6)	(21,071)	(681)	–	(21,752)
Exchange realignment	201	36	1,271	1,508
At 31 December 2017, net of accumulated amortisation	245	44	11,512	11,801
At 31 December 2017:				
Cost	24,737	4,076	15,669	44,482
Accumulated amortisation	(3,421)	(3,351)	(4,157)	(10,929)
Impairment	(21,071)	(681)	–	(21,752)
Net carrying amount	245	44	11,512	11,801

16. Prepaid Land Lease Payments

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**2,800**	2,895
Recognised during the year (note 6)	**(95)**	(95)
Carrying amount at 31 December	**2,705**	2,800
Current portion included in prepayments, other receivables and other assets (note 22)	**(95)**	(95)
Non-current portion	**2,610**	2,705

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

17. Inventories

	2018 HK$'000	2017 HK$'000
Raw materials	**130,391**	195,310
Work in progress	**79,839**	103,108
Finished goods	**161,235**	140,351
	371,465	438,769
Inventory provision	**(164,613)**	(24,116)
	206,852	414,653

17. Inventories *(Continued)*

The movements of inventory provision are as follows:

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	**24,116**	64,734
Provision for the year	**156,832**	13,114
Written off as sold-out	**(12,621)**	(56,400)
Exchange realignment	**(3,714)**	2,668
Balance at end of the year	**164,613**	24,116

18. Investments in Associates

	2018 HK$'000	2017 HK$'000
Share of net assets	**1,798**	21,690
Goodwill on acquisition	**–**	9,695
	1,798	31,385
Provision for impairment (note 6)	**(1,798)**	(9,695)
	–	21,690

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

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

	2018 HK$'000	2017 HK$'000
Share of the associates' losses for the year	**(2,198)**	(3,367)
Share of the associates' total comprehensive losses	**(2,198)**	(3,367)
Carrying amount of the Group's investments in the associates	**–**	21,690

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19. Trade Receivables

	2018 HK$'000	2017 HK$'000
Trade receivables	**129,222**	114,423
Impairment	**(6,620)**	–
	122,602	114,423

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

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

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

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

	2018 HK$'000	2017 HK$'000
Within 1 month	**47,917**	56,809
1 to 2 months	**61,906**	25,840
2 to 3 months	**4,860**	13,689
Over 3 months	**7,919**	18,085
	122,602	114,423

19. Trade Receivables *(Continued)*

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	**–**	–
Allowance for doubtful debts	**8,758**	–
Written off as uncollectible	**(2,138)**	–
Balance at end of the year	**6,620**	–

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns by customer type. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables:

As at 31 December 2018

Category	Carrying amount		Bad debt provision		Net book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Trade receivables for which bad debt provision has been assessed individually	16,126	12.48%	6,390	39.63%	9,736
Trade receivables for which bad debt provision has been assessed by using a provision matrix	113,096	87.52%	230	0.20%	112,866
Total	129,222	100%	6,620	5.12%	122,602

19. Trade Receivables *(Continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018 (Continued)

Trade receivables for which bad debt provision has been assessed by using a provision matrix:

	Current	Past due Less than 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Past due Over 1 year	Total
Expected credit loss rate	–	–	5%	30%	100%	–
Gross carrying amount (HK$'000)	106,650	6,071	–	207	168	113,096
Expected credit losses (HK$'000)	–	–	–	62	168	230

An ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	108,252
Less than 1 month past due	3,002
1 to 3 months past due	3,169
	114,423

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

20. Equity Investments Designated at Fair Value through Other Comprehensive Income/ Available-For-Sale Investments

	2018 HK$'000	2017 HK$'000
Non-current assets		
Unlisted equity investments, at fair value	**34,035**	–
Unlisted equity investments, at cost	**–**	16,631

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

21. Financial Assets at Fair Value through Profit or Loss/Available-For-Sale Investments

	2018 HK$'000	2017 HK$'000
Other unlisted investment, at fair value	**2,635**	10,805

The above unlisted investment at 31 December 2018 was a wealth management product issued by a bank in Hong Kong. It was mandatorily classified as financial assets at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

Certain of the Group's banking facilities were secured by the wealth management product with a carrying value of HK$2,635,000 as at 31 December 2018 and 2017.

The gross loss in respect of above wealth management product recognised in other comprehensive income amounted to HK$105,000 was reclassified from other comprehensive income to the statement of profit or loss for the year ended 31 December 2018.

22. Prepayments, Other Receivables and Other Assets

	2018 HK$'000	2017 HK$'000
Non-current assets		
Non-current prepayments	**9,959**	6,263
Current assets		
Prepayments	**6,999**	19,554
Deposits and other receivables	**42,249**	52,298
Prepaid land lease payments (note 16)	**95**	95
	49,343	71,947

During the year ended 31 December 2018, an amount of HK$16,142,000 included in prepayments, deposits and other receivables was fully impaired and the loss given by default was estimated to be 100%. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions. For the remaining financial assets included in above balances, the Group estimated the expected credit loss rate is minimal.

23. Cash and Cash Equivalents

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**95,132**	151,629
Time deposits	**–**	51,500
Cash and cash equivalents	**95,132**	203,129
Cash and bank balances denominated in		
— Renminbi ("RMB")	**33,876**	33,719
— United States dollars ("US$")	**58,935**	43,569
— HK$	**1,801**	125,200
— Other currencies	**520**	641
Cash and cash equivalents	**95,132**	203,129

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23. Cash and Cash Equivalents *(Continued)*

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$33,876,000 (2017: HK$33,719,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. Interest-Bearing Bank Borrowings

	2018			2017		
Current	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Bank loans — unsecured	–	–	–	1.8–2.9	2018	89,265
Bank loans — secured	**2.6–4.3**	**2019**	**29,717**	–	–	–
			29,717			89,265

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans:		
Within one year	**29,717**	89,265

The Group's bank facilities amounted to HK$33,000,000 (2017: HK$275,817,000), of which HK$29,717,000 (2017: HK$89,265,000) had been utilised as at the end of the year.

The Group's banking facilities amounting to HK$10,000,000 are secured by mortgages over the Group's building (Note 14). The Group's banking facility amounting to HK$23,000,000 is secured by an insurance and a wealth management product purchased from the bank (Note 21).

All borrowings are denominated in United States dollars.

25. Trade and Bills Payables

	2018 HK$'000	2017 HK$'000
Trade payables	**168,187**	209,843
Bills payable	**859**	18,580
	169,046	228,423

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

	2018 HK$'000	2017 HK$'000
Within 1 month	**78,762**	118,307
1 to 2 months	**52,929**	68,345
2 to 3 months	**29,154**	26,845
Over 3 months	**8,201**	14,926
	169,046	228,423

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

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26. Other Payables and Accruals

	Notes	2018 HK$'000	2017 HK$'000
Deposits received from customers		–	24,185
Contract liabilities	(a)	**18,536**	–
Other payables	(b)	**11,225**	16,809
Salary and welfare payables	(c)	**14,064**	35,646
Accruals	(b)	**168**	2,519
		43,993	79,159

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers		
Sale of goods	**18,536**	24,185

Contract liabilities include short-term advances received to deliver industrial products. The decrease in contract liabilities in 2018 was mainly due to the recognition of revenue arising from contract liabilities during the year.

(b) Other payables and accruals are non-interest-bearing and are due to mature within one year.

(c) Salary and welfare payables are non-interest-bearing and are payable on demand.

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27. Deferred Tax

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

Deferred tax assets

	2018		
	Inventory provision HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2018	**3,022**	**77**	**3,099**
Deferred tax charged to the statement of profit or loss during the year (note 10)	**(3,039)**	**(77)**	**(3,116)**
Exchange difference	**17**	**–**	**17**
At 31 December 2018	**–**	**–**	**–**

Deferred tax liabilities

	2018
	Withholding taxes HK$'000
At 31 December 2017 and 2018	**871**

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27. Deferred Tax *(continued)*

Deferred tax assets

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

Deferred tax liabilities

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

27. Deferred Tax *(continued)*

The Group has tax losses arising in Hong Kong of HK$101,172,000 (2017: HK$71,832,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of HK$125,439,000 (2017: HK$117,282,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in the United States of America of HK$24,250,000 (2017: HK$297,432,000) that will expire in one to twenty years for offsetting against future taxable profits of the companies in which the losses arose.

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

	2018 HK$'000	2017 HK$'000
Tax losses	**250,861**	486,546
Deductible temporary differences	**510,304**	29,220
	761,165	515,766

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

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

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

28. Share Capital

Shares

	2018 HK$'000	2017 HK$'000
Issued and fully paid:		
857,134,000 (2017: 857,075,000) ordinary shares	**8,572**	8,571

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

	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2017	849,277,000	8,493	684,805	693,298
Share options exercised (a)	7,798,000	78	15,660	15,738
Reclassification of vested awarded shares	–	–	(470)	(470)
At 31 December 2017 and 1 January 2018	857,075,000	8,571	699,995	708,566
Share options exercised (a)	59,000	1	118	119
At 31 December 2018	857,134,000	8,572	700,113	708,685

Note:

(a) The subscription rights attaching to 59,000 (2017: 7,798,000) share options were exercised at the subscription price of HK$0.83 (2017: HK$0.83 for 7,788,000 share options and HK$1.7 for 10,000 share options) per share during the year ended 31 December 2018, resulting in the issue of 59,000 (2017: 7,798,000) shares for a total cash consideration of HK$49,000 (2017: HK$6,481,000). An amount of HK$70,000 (2017: HK$9,257,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

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29. Share Option Schemes

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

Pre-IPO Share Option Scheme

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

	Numbers of share options						
Date of grant	At 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2018	Exercise period (both dates inclusive)	Exercise price per share
29/05/2015	**6,430,000**	**–**	**(59,000)**	**(3,173,000)**	**3,198,000**	**02/07/2016-02/07/2019**	**HK$0.83**

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

Notes:

a. One-third of these share options shall become vested on the 1st anniversary of 2 July 2015, a further one-third shall become vested on the 2nd anniversary of 2 July 2015, and the remaining one-third shall become vested on the 3rd anniversary date of 2 July 2015.

b. The fair value of the share options granted in 2015 was HK$24,973,000 (HK$1.18783 each), of which the Group reversed a share option expense of HK$2,776,000 (2017: recognised expense of HK$2,607,000) during the year ended 31 December 2018.

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29. Share Option Schemes *(continued)*

Pre-IPO Share Option Scheme *(continued)*

Notes: *(continued)*

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

Options granted on 29 May 2015

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

The 59,000 share options exercised during the year resulted in the issue of 59,000 ordinary shares of the Company and new share capital of HK$590 and share premium of HK$118,000 (before issue expenses), as further detailed in note 28 to the financial statements.

As at 31 December 2018, the Company had 3,198,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 3,198,000 additional ordinary shares of the Company and additional share capital of HK$32,000 and share premium of HK$6,421,000 (before issue expenses).

Share Option Scheme

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

	Number of share options						
Date of grant	At 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2018	Exercise period (both dates inclusive)	Exercise price per share
(i) 27/07/2015	**2,000,000**	**–**	**–**	**–**	**2,000,000**	**27/07/2016–26/07/2020**	**HK$3.46**
(ii) 15/09/2016	**11,544,000**	**–**	**–**	**(2,133,000)**	**9,411,000**	**15/09/2017–14/09/2024**	**HK$1.70**
(iii) 01/12/2016	**11,400,000**	**–**	**–**	**(6,800,000)**	**4,600,000**	**01/12/2017–30/01/2025**	**HK$1.986**
(iv) 18/05/2017	**15,000,000**	**–**	**–**	**(4,719,000)**	**10,281,000**	**18/05/2018–17/05/2025**	**HK$2.206**
(v) 26/04/2018	**–**	**12,522,000**	**–**	**–**	**12,522,000**	**26/04/2019–26/04/2026**	**HK$0.94**
	39,944,000	**12,522,000**	**–**	**(13,652,000)**	**38,814,000**		

29. Share Option Schemes *(continued)*

Share Option Scheme (continued)

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

Notes:

(i) Half of these share options are exercisable on the 1st anniversary of 27 July 2015, and the remaining are exercisable on the 2nd anniversary of 27 July 2015.

The fair value of the share options granted in 2015 was HK$1,814,000 (HK$0.907 each), of which no (2017: HK$280,000) share option expense was recognised during the year ended 31 December 2018.

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

The fair value of the share options granted in September 2016 was HK$8,111,000 (HK$0.62672 each), of which the Group recognised a share option expense of HK$573,000 (2017: HK$3,610,000) during the year ended 31 December 2018.

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

The fair value of the share options granted in December 2016 was HK$13,990,000 (HK$0.703 each), of which the Group reversed a share option expense of HK$1,894,000 (2017: recognised amounted to HK$7,585,000) during the year ended 31 December 2018 .

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

The fair value of the share options granted on 18 May 2017 was HK$10,416,000 (HK$0.6944 each), of which the Group recognised a share option expense of HK$1,838,000 (2017: HK$3,541,000) during the year ended 31 December 2018.

(v) One-third of these share options shall become vested on the 1st anniversary date of 26 April 2018, a further one-third shall become vested on the 2nd anniversary of 26 April 2018, and the remaining one-third shall become vested on the 3rd anniversary of 26 April 2018.

The fair value of the share options granted on 26 April 2018 was HK$4,245,000 (HK$0.339 each), of which the Group recognised a share option expense of HK$1,689,000 during the year ended 31 December 2018.

29. Share Option Schemes *(continued)*

Share Option Scheme (continued)

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

At grant date	28 April 2018	18 May 2017
(i) Expected volatility	**59.03%–62.75% per year**	57.63%–61.27% per year
(ii) Expected life of options	**6.0-8.0**	6.0-8.0
(iii) Average risk-free interest Rate	**2.11%–2.13% per year**	1.16%–1.22% per year
(iv) Expected dividend yield	**5.74% per year**	5.32% per year
(v) Estimated rate of leaving service	**27.50% per year**	25%per year

As at 31 December 2018, the Company had 38,814,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 38,814,000 additional ordinary shares of the Company and additional share capital of HK$388,000 and share premium of HK$88,447,000 (before issue expenses).

30. Share Award Scheme

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

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

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

30. Share Award Scheme *(continued)*

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

Date of grant	Number of awarded shares At 1 January 2018	Granted during the year	Vested during the year	Lapsed during the year	At 31 December 2018	Exercise period (both dates inclusive)	Exercise price per share
29/11/2016	**4,372,000**	**–**	**–**	**–**	**4,372,000**	**19/12/2017–19/12/2019**	**–**

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

Notes:

a. In 2016, based on the Company's instructions, the Trustee purchased a total of 6,558,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK$1.79 to HK$2.30 per share at a total consideration (including related transaction costs) of approximately HK$14,000,000.

b. The Company granted 6,558,000 shares to a certain employee on 29 November 2016, which will be vested in tranches of one-third each on every anniversary of the grant date starting from the 1st anniversary date until the 3rd anniversary.

c. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.92) on the date of the grant, and amounted to HK$12,591,000, of which the Group recognised a Share Award Scheme expense of HK$3,323,000 (2017: HK$7,345,000) during the year ended 31 December 2018.

31. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 68 to 69 of the financial statements.

Reserve fund

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

32. Disposal of Subsidiaries

	2018 HK$'000
Property, plant and equipment	**373**
Cash and bank balances	**95**
Trade receivables	**30**
Prepayments and other receivables	**3,263**
Accruals and other payables	**(9,454)**
Net liabilities disposed of	**(5,693)**
Satisfied by cash	**–**
Gain on disposal of subsidiaries (note 6)	**5,693**

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2018 HK$'000
Cash consideration	**–**
Cash and bank balances disposed of	**(95)**
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(95)**

The Group has entered into an agreement dated 1 October 2018 to dispose of its 100% equity interests in the registered capital of ION Worldwide Inc., ION America LLC, ION360 (USA) LLC, ION360 Investments LLC, and ION360 Imaging LLC ("ION USA") to a third party at the consideration of one United States dollar.

The principal activities of ION USA are distributions of cameras. ION USA have been loss making for the past several years. The Directors are in the opinion that the disposal of ION USA is in line with the Group's development strategy and could streamline the Group's structure.

33. Operating Lease Arrangements

As lessee

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

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**19,423**	18,034
In the second to fifth years, inclusive	**56,919**	24,511
After five years	**3,667**	3,026
	80,009	45,571

34. Commitments

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Unpaid investment amount*	**15,284**	–
Plant and machinery	**762**	1,419
	16,046	1,419

* On 12 December 2018, the Group entered into an agreement to invest in a company located in Vietnam by providing property, plant and equipment and cash, amounted to approximately HK$15,284,000. Further details are included in note 39.

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35. Related Party Transactions and Balances

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

	Notes	2018 HK$'000	2017 HK$'000
Loans from a related party:			
Tang Wing Fong Terry	(i)	**51,240**	–
Rental expenses:			
XinYongYi Technology Park (Heyuan) Limited ("XinYongYi")*	(ii)	**4,257**	4,740
Sales of goods to an associate			
Kandao Lightforge Co., Ltd.	(iii)	**7,062**	–

* The related transactions with XinYongYi is also composed of the continuing connected transactions that defined in Chapter 14A of Hong Kong Listing Rules.

(i) The loans from Tang Wing Fong Terry, a shareholder of the Company, are unsecured, interest-free, of which the maturity is over one year. On 15 January 2019, the Company and Tang Wing Fong Terry entered into the loan capitalisation agreement whereby the loans have been transferred to capital.

(ii) The rental expenses were paid to XinYongYi, which was controlled by a director of a subsidiary of the Group, for a lease of plant and office premises located in Heyuan and were charged in the form of monthly rentals of HK$355,000 and HK$395,000 for the years ended 31 December 2018 and 2017, respectively. The rental was determined based on mutual agreement between the parties.

(iii) Sales of goods to Kandao Lightforge Co., Ltd. are charged at prevailing market prices.

35. Related Party Transactions and Balances *(continued)*

(2) Compensation of key management personnel of the Group

	2018 HK$'000	2017 HK$'000
Short term employee benefits	**2,889**	3,135
Equity-settled share option and Share Award Scheme expenses	**836**	1,146
Post-employment benefits	**114**	113
Total compensation paid to key management personnel	**3,839**	4,394

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

(3) Outstanding balances with related parties

	2018 HK$'000	2017 HK$'000
Due from a related party		
XinYongYi	**589**	835
Due to related parties		
Tang Wing Fong Terry*	**51,240**	–
Shenzhen Yongyida Electronics Co., Ltd.("YongYiDa")	**40**	42
XinYongYi	**44**	254
	51,324	296

* On 15 January 2019, the Company and Tang Wing Fong Terry entered into the loan capitalisation agreement whereby the loans have been transferred to capital.

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

36. Financial Instruments by Category

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

2018

Financial assets	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Equity investments at fair value through other comprehensive income	–	–	34,035	34,035
Financial assets at fair value through profit or loss	–	2,635	–	2,635
Trade receivables	122,602	–	–	122,602
Financial assets included in prepayments, other receivables and other assets	32,390	–	–	32,390
Cash and cash equivalents	95,132	–	–	95,132
Due from a related party	589	–	–	589
	250,713	2,635	34,035	287,383

Financial liabilities	Financial liabilities at amortised cost HK$'000
Interest-bearing bank borrowings	29,717
Trade and bills payables	169,046
Financial liabilities included in other payables and accruals	25,457
Due to related parties	51,324
	275,544

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36. Financial Instruments by Category *(continued)*

2017

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

Financial liabilities	Financial liabilities at amortised cost HK$'000
Interest-bearing bank borrowings	89,265
Trade and bills payables	228,423
Financial liabilities included in other payables and accruals	54,974
Due to related parties	296
	372,958

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37. Fair Value and Fair Value Hierarchy of Financial Instruments

At 31 December 2018 and 2017, the carrying amounts and fair values of the Group's financial assets and financial liabilities approximated to their respective carrying amounts.

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

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

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

The Group invests in an unlisted investment, which represents a wealth management product issued by a bank in Hong Kong. The Group has estimated the fair value of the unlisted investment based on the market price.

Fair value hierarchy

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

Assets measured at fair value:

	Fair value measurement using		
As at 31 December 2018	Quoted prices in active markets (Level 1) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	**2,635**	**–**	**2,635**
Equity investments designated at fair value through other comprehensive income	**–**	**34,035**	**34,035**
	2,635	**34,035**	**36,670**

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

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

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 2017.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

38. Financial Risk Management Objectives and Policies

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

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 87.3% (2017: 87.6%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 47.4% (2017: 52.7%) of costs were denominated in the units' functional currencies.

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

38. Financial Risk Management Objectives and Policies *(continued)*

Foreign currency risk

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit/(loss) before tax HK$'000	Increase/ (decrease) In equity* HK$'000
As at 31 December 2018			
If HK$ weakens against US$	**5**	**3,956**	**3,303**
If HK$ strengthens against US$	**(5)**	**(3,956)**	**(3,303)**
If HK$ weakens against RMB	**5**	**(4,931)**	**(4,117)**
If HK$ strengthens against RMB	**(5)**	**4,931**	**4,117**
As at 31 December 2017			
If HK$ weakens against US$	5	2,170	1,812
If HK$ strengthens against US$	(5)	(2,170)	(1,812)
If HK$ weakens against RMB	5	5,725	4,780
If HK$ strengthens against RMB	(5)	(5,725)	(4,780)

* Excluding retained profits

Credit risk

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

38. Financial Risk Management Objectives and Policies *(continued)*

Maximum exposure as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables*	–	–	–	122,602	122,602
Financial assets included in prepayments, other receivables and other assets**	32,390	–	–	–	32,390
Cash and cash equivalents	95,132	–	–	–	95,132
Due from a related party	589	–	–	–	589
	128,111	–	–	122,602	250,713

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Maximum exposure as at 31 December 2017

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group had certain concentrations of credit risk as 81.7% and 75.7% of the Group's trade receivables were due from the Group's five largest customers as at 31 December 2018 and 2017, respectively.

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

38. Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2018				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	over 1 year HK$'000	Total HK$'000
Interest-bearing bank borrowings	**–**	**16,466**	**13,405**	**–**	**29,871**
Trade and bills payables	**–**	**160,845**	**8,201**	**–**	**169,046**
Due to related parties	**–**	**–**	**–**	**51,324**	**51,324**
Financial liabilities included in other payables and accruals	**25,457**	**–**	**–**	**–**	**25,457**
	25,457	**177,311**	**21,606**	**51,324**	**275,698**

	2017			
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	Total HK$'000
Interest-bearing bank borrowings	–	76,675	13,060	89,735
Trade and bills payables	–	204,666	23,757	228,423
Due to related parties	–	296	–	296
Financial liabilities included in other payables and accruals	54,974	–	–	54,974
	54,974	281,637	36,817	373,428

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38. Financial Risk Management Objectives and Policies *(continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio. The gearing ratio is defined as interest-bearing bank borrowings divided by total equity. The gearing ratios as at the end of the reporting period were as follows:

	2018 HK$'000	2017 HK$'000
Interest-bearing bank borrowings	**29,717**	89,265
Total equity	**310,067**	570,264
Gearing ratio	**9.6%**	15.7%

39. Events after the Reporting Period

On 14 February 2019, the Group established a company under the name of Sky Light Electronics Joint Stock Company in Vietnam (Sky Light Vietnam) with CNC Holdings Vietnam Joint Stock Company ("CNCTech"), an independent third party. The Group holds a 65% equity interest in Sky Light Vietnam by providing property, plant, equipment in the amount of approximately HK$13,450,000 and cash of HK$1,834,000 as the initial capital contribution. CNCTech holds 35% of the equity interest in Sky Light Vietnam by providing cash of HK$8,225,000 as the initial capital contribution.

On 15 January 2019, the Company and Tang Wing Fong Terry entered into the loan capitalisation agreement whereby the loans from Tang Wing Fong Terry of HK$51,240,000 at the year-end have been converted to capital of the Company.

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40. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Amounts due from subsidiaries	**587,168**	587,413
Investment in a subsidiary	**22,000**	22,000
Total non-current assets	**609,168**	609,413
CURRENT ASSETS		
Cash and cash equivalents	**55**	989
Total current assets	**55**	989
CURRENT LIABILITIES		
Other payables	**124**	124
Total current liabilities	**124**	124
NET CURRENT (LIABILITIES)/ASSETS	**(69)**	865
Net assets	**609,099**	610,278
EQUITY		
Issued capital	**8,572**	8,571
Shares held for Share Award Scheme	**(9,333)**	(9,333)
Reserves	**609,860**	611,040
Total equity	**609,099**	610,278

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40. Statement of Financial Position of the Company *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Share award reserve HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2017	684,805	641	17,065	81,350	(145,062)	638,799
Total comprehensive loss for the year	–	–	–	–	(27,191)	(27,191)
Issue of shares and exercise of share options	15,660	–	(9,257)	–	–	6,403
Equity-settled share option arrangements	–	–	17,623	–	–	17,623
Equity-settled Share Award Scheme arrangement	–	7,345	–	–	–	7,345
Reclassification of vested awarded shares	(470)	(4,197)	–	–	–	(4,667)
Final 2016 dividend	–	–	–	–	(27,272)	(27,272)
At 31 December 2017 and 1 January 2018	**699,995**	**3,789**	**25,431**	**81,350**	**(199,525)**	**611,040**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(3,981)**	**(3,981)**
Issue of shares and exercise of share options	**118**	**–**	**(70)**	**–**	**–**	**48**
Equity-settled share option arrangements	**–**	**–**	**(570)**	**–**	**–**	**(570)**
Equity-settled Share Award Scheme arrangement	**–**	**3,323**	**–**	**–**	**–**	**3,323**
At 31 December 2018	**700,113**	**7,112**	**24,791**	**81,350**	**(203,506)**	**609,860**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

41. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows:

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	**989,708**	735,780	1,339,611	2,736,152	2,092,385
Gross profit	**172,957**	161,320	325,407	546,143	445,767
Gross profit margin	**17.5%**	21.9%	24.3%	20.0%	21.3%
Profit before tax	**(250,612)**	(470,034)	61,638	253,843	246,484
Profit for the year	**(253,728)**	(485,300)	53,728	213,517	201,888
Net profit margin	**–25.6%**	–66.0%	4.0%	7.8%	9.6%
Profit attributable to owners of the Company	**(253,728)**	(485,300)	53,728	213,517	201,906
Cash and cash equivalents	**95,132**	203,129	480,436	629,990	167,167
Bank and other borrowings	**29,717**	89,265	100,984	212,009	164,826
Total assets	**611,293**	985,428	1,384,661	1,498,311	921,009
Total liabilities	**301,226**	415,164	361,348	487,525	701,928
Equity attributable to owners of the Company	**310,067**	570,264	1,023,313	1,010,786	219,081
Non-controlling interests	**–**	–	–	–	–
Total equity	**310,067**	570,264	1,023,313	1,010,786	219,081